County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

SACHI A. HAMAI
Interim Chief Executive Officer

June 9, 2015

To: Mayor Michael D. Antonovich
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Sachi A. Hamai
Interim Chief Executive Officer

REPORT ON THE IMPACT OF A MINIMUM WAGE INCREASE IN LOS ANGELES COUNTY (ITEM NO. 38-1, AGENDA OF MARCH 31, 2015)

This is to provide you with information on the likely fiscal and economic impact of raising the minimum wage in Los Angeles County in accordance with the March 31, 2015 motion by Supervisors Kuehl and Solis, as amended.

In accordance with the Board's instructions, the Interim Chief Executive Officer (CEO) executed a Delegated Authority Agreement (DAA) on May 5, 2015 with the Los Angeles County Economic Development Corporation (LAEDC) to conduct an analysis and prepare a report on a County minimum wage. LAEDC was charged with conducting a literature review of the recent minimum wage studies commissioned by the City of Los Angeles and other relevant contemporary economic research; and the following economic impact analyses: on workers, businesses, and non-profits in the unincorporated areas; on the County as an employer; on County contractors and vendors; on regional economic dynamics; and on County residents who receive Affordable Care Act subsidies through Covered California or Medi-Cal. It was subsequently determined that a separate analysis on the impact to County contractors and vendors will be required; therefore, this information will be provided at a later date. The draft report from LAEDC is attached (Attachment A).

Also, as instructed, reports from the Department of Consumer and Business Affairs (Attachment B) and the Department of Public Social Services (Attachment C) are attached. The Director of Consumer and Business Affairs has prepared a report on the public hearings conducted in the unincorporated areas in conjunction with the Small Business Commission and the LAEDC in order to solicit input from business owners.

The Department of Public and Social Services' (DPSS) report analyzes the impact of a higher minimum wage on the public assistance programs administered by the Department, including the California Work Opportunity and Responsibility to Kids (CalWORKs) and CalFresh programs.

In addition, the CEO and County Counsel were instructed to identify, analyze, and quantify any other potential impacts of a minimum wage increase to the County as an employer and as the wage-setting authority for the unincorporated County areas.

County Counsel

The California Constitution authorizes local entities, such as the County, to enact minimum wage ordinances subject to various legal and jurisdictional constraints. For example, the State Constitution and County Charter restrict the territorial reach of the County's proposed minimum wage ordinance to only those private employees performing work within the unincorporated territory. In addition, federal, State, and local laws may preempt application of a County minimum wage to certain employees depending on the industry or type of work performed.

For its own employees, the County, as a charter County, has the power to establish the compensation of all of its employees wherever they perform work. This includes County employees performing work in incorporated cities. As a business participant, the County may also impose wage requirements on future contractors, also subject to federal or State laws which may limit the County's power, such as when work is performed outside of the State.

County Counsel will continue to analyze the complex legal issues surrounding a local minimum wage law, including the exemptions which are provided by federal and State law, and will continue to assist the CEO in analyzing any minimum wage proposals.

Chief Executive Office

Although the fiscal impact to the County as an employer is included in LAEDC's report, the CEO also conducted an internal analysis of the fiscal impacts of a minimum wage increase on the County employee population. This cost analysis was initially based on non-incremental increases to $13.25 or $15.25 per hour since these were the two minimum wage levels specified in the Board motion. However, in light of the Los Angeles City Council's recent consideration of implementing a $15 per hour minimum wage for most workers by the year 2020, we are now basing the cost analysis using the timeframe and wage increments specified in the City's proposal.

In addition to our use of the City's minimum wage proposal, varying methodologies used by CEO and LAEDC resulted in some differences in cost estimates at certain intervals. We are discussing these differences with LAEDC in order to refine the analysis. Despite the different approaches and methodologies, both the CEO analysis and LAEDC's estimates are within a similar range.

The estimated costs include minor adjustments to directly related County job classifications making slightly above the higher minimum wage levels in order to maintain appropriate pay differentials. Many, but not all, of the County job classifications that would be impacted by a minimum wage increase are part-time, student, or seasonal positions. Currently, thirty-seven County classifications pay less than $15 per hour. Another two classifications pay just above $15 per hour, but would need minor compensation adjustments to mitigate wage compression. These classifications comprise approximately 2,800 budgeted positions.

The following table shows the estimated cost increases to Salary & Employee benefits (S&EB) associated with the minimum wage increases, including necessary adjustments to related classifications:

LA COUNTY EMPLOYEES					
		GROSS		**NCC**	
Effective Date	**Hourly Rate**	**Incremental Cost**	**Cumulative Cost**	**Incremental Cost**	**Cumulative Cost**
7/1/16	$10.50	$676,295	$676,295	$289,251	$289,251
7/1/17	$12.00	$2.8 million	$3.4 million	$1.2 million	$1.5 million
7/1/18	$13.25	$5.4 million	$8.9 million	$2.3 million	$3.8 million
7/1/19	$14.25	$7.2 million	$16.1 million	$3.1 million	$6.9 million
7/1/20	$15.00	$6.1 million	$22.2 million	$2.6 million	$9.5 million

These amounts include the State minimum wage increase to $10 per hour effective January 1, 2016, but not any potential future general salary movement for County employees. This analysis will be repeated at the conclusion of negotiations and ratification of the various labor agreements should general salary movement be approved.

Finally, we were not able to quantify the potential impact that minimum wage growth may have on unrelated classifications, some requiring particular skills, education, or training, that currently make just above $15 per hour or how this may influence employees' perception of wage equity and their own compensation.

If you have any questions or need additional information, please contact me, or your staff may contact Maryanne Keehn at (213) 974-0470, or via e-mail at mkeehn@ceo.lacounty.gov.

SAH:JJ:MTK
PB:mst

Attachments

c: Executive Office, Board of Supervisors
Auditor-Controller
Consumer and Business Affairs
County Counsel
Internal Services
Public Social Services

N:\BENEFITS & COMP POLICY\BOARD MEMO\Item 38-A, Agn 3-31-15, B100569 - Min Wage Report\Item 38-A, Agenda 3-31-15 Min Wage Report to BOS B100569.docx

ATTACHMENT A

LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION

MINIMUM WAGE POLICY IN LOS ANGELES COUNTY: REVIEW OF RECENT LITERATURE AND POTENTIAL IMPLICATIONS

MINIMUM WAGE POLICY IN LOS ANGELES COUNTY:

REVIEW OF RECENT LITERATURE AND POTENTIAL IMPLICATIONS

DRAFT DOCUMENT
JUNE 2015

INSTITUTE FOR APPLIED ECONOMICS
LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

MINIMUM WAGE POLICY IN LOS ANGELES COUNTY:

REVIEW OF RECENT LITERATURE AND POTENTIAL IMPLICATIONS

Christine Cooper, Ph.D.
Shannon M. Sedgwick
Somjita Mitra, Ph.D.
Wesley DeWitt

DRAFT DOCUMENT

DRAFT DOCUMENT
JUNE 2015

LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION
444 S. FLOWER STREET, 37TH FLOOR ◆ LOS ANGELES, CA 90071

Report version: 6/4/2015 7:32 PM

This report was prepared under a Delegated Authority Agreement with the Los Angeles County Board of Supervisors.

The LAEDC Institute for Applied Economics specializes in objective and unbiased economic and policy research in order to foster informed decision-making and guide strategic planning. In addition to commissioned research and analysis, the Institute conducts foundational research to ensure LAEDC's many programs for economic development are on target. The Institute focuses on economic impact studies, regional industry and cluster analysis and issue studies, particularly in workforce development and labor market analysis.

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EXECUTIVE SUMMARY

PENDING

INTRODUCTION

On May 19th, 2015, after months of consideration, discussion and public hearings—eight months and 18 days after the Labor Day announcement of Mayor Garcetti to pursue an increase in the citywide minimum wage to $13.25 per hour—the LA City Council voted to draft an ordinance raising the minimum wage in a number of steps beginning in July 2016 to reach $13.25 by 7/1/2018 and $15.00 by 7/1/2020, settling on a schedule that went beyond Garcetti's original proposal.

The Los Angeles County Board of Supervisors, representing the unincorporated areas of Los Angeles County, is considering adopting a policy congruent with the City, and has asked the Los Angeles County Economic Development Corporation (LAEDC) to study the issue and report its findings in a number of areas, including:

- A review and assessment of the four studies prepared to evaluate an early incarnation of the City's proposal
- How the findings of these studies, if valid, might relate to the unincorporated areas, especially:
  - Impacts on employees, business, non-profits
  - Movement of jobs and workers across boundaries
- The fiscal impact of the proposed policy on the County budget
- An analysis of the potential fiscal impact if County vendors are required to adhere to the proposed policy
- Discussion of the impacts of wage increases on those covered by Affordable Care Act (ACA)

This report is submitted in response to the Board's request. It has been prepared in three parts:

Part 1 addresses the Board's interest in reviewing and assessing current literature on minimum wage policy and, in particular, the research and analysis provided to the Los Angeles City Council and Mayor's office. We begin with a discussion of the possible responses by employees, employers and the economy to an increase in the mandated minimum wage, and how each of the four studies arrives at their conclusions. In this section, we assess the validity of the findings of these studies within the larger scope of the County and its attendant cross border impacts.

Part 2 examines the impact of the proposed policy on the County budget if it is adopted for unincorporated areas of the County. This section provides an estimate of the potential increase in labor costs for the County based on its own direct employees. Also included is a preliminary discussion of the potential impact on County vendors who might be subject to the ordinance, although the analysis of these contracts had not yet been conducted at the time of the submittal of this report.

Part 3 provides a brief theoretical discussion of how raising the wages of particular individuals might impact their premiums and subsidy support under the Affordable Care Act.

Appendices provide details of the survey of businesses reported in Part 1 and a list of literature consulted during research for this report.

PART 1: MINIMUM WAGE ANALYSIS

As the City of Los Angeles was reviewing the various proposals, several consultants were retained to provide economic analysis and opinion of the expected net impacts of an increase in the minimum wage on the residents, workers and economy of Los Angeles City. The proposed policy envisioned an increase in steps reaching $13.25 in 2017. Other proposals suggested further annual increases reaching $15.25 by 2019. (The policy that was finally recommended at the May 19th Economic Development Committee meeting was slightly different – to become effective one year later and to ultimately reach $15.00 per hour in 2020.)

Initially, in preparation for the Mayor's Labor Day announcement, the Mayor chose a team of researchers from the Institute for Research on Labor and Employment at the University of California (UC) Berkeley and the UC Berkeley Labor Center to study his proposed policy and comment on expected impacts (prospective study). This original report is referenced as "Berkeley-IRLE-1" in the discussion that follows.

Once announced, and upon the request of Los Angeles City Council members to undertake additional study of the issue, the City retained the services of the same research team to provide a more comprehensive report. This report is referenced as "Berkeley-IRLE-2."

Two additional teams were retained by third parties and submitted reports for consideration. Beacon Economics, a Los Angeles-based economic research and consulting firm, was retained by the Los Angeles Area Chamber of Commerce. Hereinafter, their study is labeled "Beacon." The Economic Roundtable, a Los Angeles-based nonprofit public policy research organization, in conjunction with researchers from the Institute for Research on Labor and Employment at the University of California Los Angeles (UCLA) and the UCLA Labor Center, was retained by the Los Angeles County Federation of Labor AFL-CIO. Hereinafter, the study produced by this team is labeled "ERT-UCLA-IRLE."

Each of these reports is discussed in the context of theory suggesting potential effects of minimum wage policy, and with reference to the study's data, methodology and underlying assumptions.

In addition to the four studies, we report the findings of an independently-conducted survey commissioned by the LAEDC of 1,000 randomly-selected businesses in Los Angeles County. This survey was fielded during the week of April 13, 2015 and asked respondents to assess how they expected to respond to the proposed policy. The data is to a maximum sampling error of +/- 3.2 percent, and results are statistically significant at the 95 percent confidence level. Details of the survey are provided in Appendix A.

In reviewing the studies, we have also surveyed much of the current literature on the subject, in particular the research since the early 1990s which is commonly referred to as "new minimum wage research." Most of the citations listed by each study were consulted, and two authoritative compendium volumes were read. Additionally, numerous articles published in the popular press and by private entities were included in our scan of the literature. A partial listing of the literature reviewed is given in Appendix B.

Results from the four studies lie on a continuum of economic impacts from the very positive to the very negative.

Berkeley-IRLE-1 and Berkeley-IRLE-2 find that all minimum wage workers will benefit from increased earnings. There may be some job losses because price increases will dampen some demand, but while City job impacts will be marginally negative, overall the regional impact will be positive because increased spending will more than offset any possible reduced demand.

Beacon finds that while there will be an increase in earnings and a stimulative effect on the City, over time there will be job losses (reduction in job growth) and a loss of activity as businesses reduce future hiring and/or relocate and/or cease operations.

ERT-UCLA-IRLE finds that not only will all minimum wage workers benefit from increased earnings, but the stimulus to the economy will create many new jobs.

None of the teams directly address impacts on alleviating poverty or reducing income inequality—the stated motivations of the policy.

How can these studies have concluded such different impacts? How are policymakers to make an informed decision when the forecasted outcomes are so divergent?

The complex interplay between workers and the organizations that hire them, both facing a competitive global marketplace, and each constituency's responses to mandated wages amid other regulations deserves careful examination. The ambiguity of definitive outcomes has provided much fodder for economic analysis, becoming one of the most studied and examined policy issues of our time. The difficulty of reading and interpreting results and then attributing them specifically and only to particular responses is much challenged. The economic models used in empirical research have changed over time (and differ among geographies) as methods have improved and as new and richer data sources become available. And with new government-led policy experiments arising across the nation and globe, the study of minimum wage policy has only intensified.

What can be said with some certainty is that increasing the minimum wage will increase the hourly payroll rate paid to employees who are affected. What happens next as a result is more uncertain, and depends on the responses of employers, employees and non-working job seekers and how these in turn generate downstream impacts.

In what follows, we summarize the most commonly predicted responses by employees and by employers to minimum wage increases, and how these predicted responses aggregate to an overall impact on the economy. We summarize how each study approaches each of these responses and their conclusions based on their approaches. We follow this with our assessment of the studies, and how these findings relate to the potential impacts at the County level.

First, though, it is important to think about how many workers in Los Angeles earn less than the proposed minimum wage of $13.25.

WHICH WORKERS WILL THE POLICY IMMEDIATELY IMPACT?

It is clear that a large slice of workers will be potentially impacted. This is likely because the first step reported on of the proposed increase ($13.25) is almost 150 percent of the current minimum wage, which will reach much higher up the wage scale and encompass a larger share of workers than, say, the initial expected step of $10—the statewide minimum which will become effective January 1, 2016.

The three teams use different approaches and data sources (and growth estimates) to estimate the proportion of the workforce that would be impacted since actual data on jobs that pay minimum wages at the City level are not directly available. Berkeley-IRLE-1 estimates (in its mid-range estimate) that by 2017, 36.9 percent of all workers in the City (567,000 workers) would be affected. (This estimate includes ripple effects, which are discussed below.) Berkeley-IRLE-2 refines this estimate somewhat to 37.8 percent (542,000; also including ripple effects) in 2017 and 609,000 in 2019.

Estimates are provided in Beacon for some characteristics, but it appears that the percentages are based on Los Angeles County data and not isolated to the workers in the City of Los Angeles. (These may not be materially different.) Beacon states (on page 4) that 25 percent of the workforce would be affected in 2017, while its exhibit on page 20 suggests that number to be 29 percent. (These estimates do not include ripple effects.)

ERT-UCLA-IRLE estimates that 35 percent of all jobs (or 632,138 workers) would be affected in 2017, and 39 percent of all jobs (723,426 workers) in 2019. These estimates are larger than either Berkeley-IRLE study, possibly because Berkeley-IRLE takes into account the pending increase in the statewide minimum wage from $9.00 to $10.00 in 2016 and provides its increment based on that stepped-up wage. It is also not clear that ERT-UCLA-IRLE excluded government workers from its sample (which would not be impacted by the ordinance).

Whichever estimate is closest, the proportion of the workforce that will be subject to the minimum wage policy is clearly significant.

There is broad agreement as well about the *characteristics* of the workers that are likely to be affected. According to Berkeley-IRLE-1, almost 97 percent are adult workers with a median age of 33 years, and 16.1 percent have a family income less than the current federal poverty limit (again, these estimates are somewhat refined in Berkeley-IRLE-2).

The age variable deviates markedly from the common belief that minimum wages are typically paid to teenagers. This could be a consequence of the higher premium being considered over the current minimum wage, but it could also be a consequence of the higher proportion of all workers in Los Angeles County that are minimum wage workers. We compare City-level and County characteristics with national averages below (see page 29).

In Beacon, it is estimated that 9.4 percent of all affected workers are under age 21, a proportion which is not directly comparable to the Berkeley-IRLE-1 estimates since Beacon's age category includes 20 year-olds. ERT-UCLA-IRLE does not provide demographic characteristics of all affected workers, instead providing selected characteristics of specific wage categories of jobs.

The proportion of affected workers that are teens may be an important statistic because much of the literature investigating the employment impacts of minimum wage policies examines teen workers (often used as a proxy for the least skilled). In the samples we are reviewing, however, teen workers are not representative of the affected workforce.

Industries that employ higher proportions of minimum wage workers are most likely to be most impacted. There is agreement among the studies that these include food services, personal services, administrative and waste management, retail trade, accommodation, social assistance and child day care services and personal services.

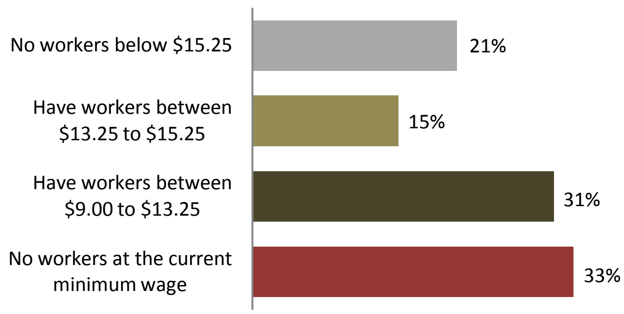
TABLE 1-1
Estimates of number and selected characteristics of affected workers

	Berkeley-IRLE-1 2017	Berkeley-IRLE-2 2017 / 2019	Beacon 2017	ERT-UCLA-IRLE 2017 / 2019
Estimated percentage of workforce (includes government or not?)	36.9% (includes ripple effect)	37.8% / 41.3% (includes ripple effect)	25% in narrative on p4, but 29% in Exhibit on p20	35% / 39% Possibly includes govt
Estimated number of workers	567,000	542,000 / 609,000	1,038,704 (LA County)	632,138 / 723,426
Average increase in pay	Annual increase 21.4% $1.89 per hour	20.4% / 30.2% $1.82 / $2.73 per hour	Not quantified	Not quantified
Percentage of affected workers:				
Teens	3.2% (ages 18-19)	3.3 / 3.1 (ages 16-19)	9.4 (ages 16-20)	Not isolated
Median age	33	33 / 33	30% are less than 26	Not isolated
Less than HS	27.8%	28.6% / 27.8%	30.7%	Not reported
HS only	26.0%	26.5% / 26.5%	27.1%	Not reported
Full time workers	67.4%	68.9% / 70.2%	65.2%	59.3% / 59.2% (derived from Exhibit 3.6)
Below poverty (FPL)	16.1%	16.6% / 15.4%	Not reported	Not reported
1 – 2X poverty (FPL)	35.3%	36.7% / 35.6%	Not reported	Not reported
Share of family income	51.0%	51.9% / 52.7%	38.2%	

WHAT THE LAEDC SURVEY REVEALS

To learn about the extent of coverage of the proposed policy, several questions were asked of employers about their current workforce.

QUESTIONS 1-3:
Do you currently have minimum wage workers?



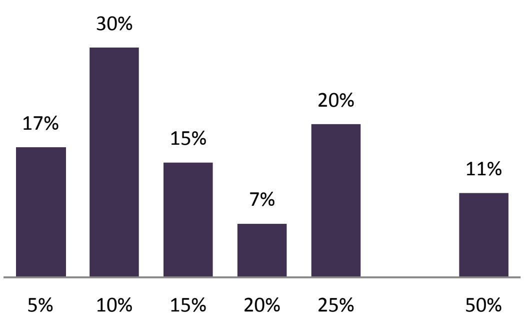
Results derived from the number of employers answering "no" to the three survey questions.

WHAT THIS TELLS US:

Approximately 64 percent of all employers will be impacted by the minimum wage of $13.25, and 79 percent will be impacted by the policy at its highest proposed minimum wage.

How these responses differ by company size is discussed below.

QUESTION 1: If you have minimum wage workers ...
What percentage of your current workforce is paid the current minimum wage?



The mean response of those who currently have minimum wage workers was 17.9 percent.

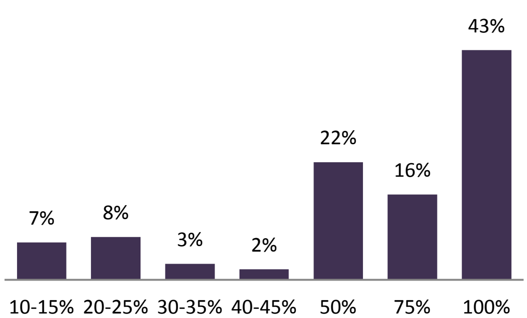
WHAT THIS TELLS US:

Of employers who report having minimum wage employees, almost half say these employees account for ten percent or less of their workforce.

A small number of employers report that half of their workforce is minimum wage workers.

The overall mean response of these employers was 17.9 percent.

QUESTION 4: Of your minimum wage workers ...
What percentage are full-time workers?



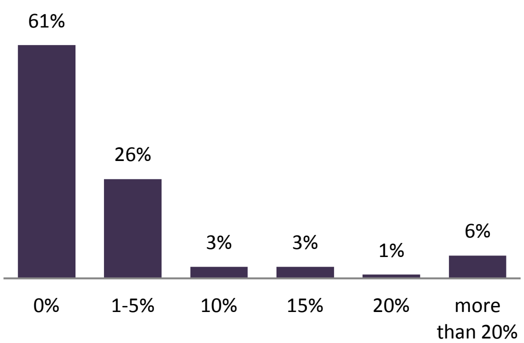
The mean response of those who currently have minimum wage workers was 70.5 percent.

WHAT THIS TELLS US:

Of employers who report having minimum wage employees, most of these workers are full-time employees.

The overall mean response of these employers was 70.5 percent.

QUESTION 6: Of your minimum wage workers ...
What percentage are teenagers?



The mean response of those who currently have minimum wage workers was 3.4 percent.

WHAT THIS TELLS US:

Of employers who report having minimum wage employees, few hire teenaged workers.

The overall mean response of these employers was 3.4 percent.

Although we asked about seasonal and temp employees, even fewer employers report hiring these individuals at minimum wages, with a mean response of 1.9 percent.

The survey responses confirm some of the estimates and findings of the data analysis of the studies regarding the affected workforce. First, the minimum wage policy is more likely to impact full-time, adult workers. Second, minimum wage workers really do not account for a large percentage of most firms' workforces. The responses differ by company size. Still, by 2019 (or when the $15.25 wage level is implemented), almost 80 percent of employers in Los Angeles County will be impacted.

EMPLOYEE REPONSES

WHAT THEORY SUGGESTS

Unambiguously, *employed workers* who are currently earning less than the mandated minimum wage (at each step) and who retain their positions will clearly receive a higher hourly rate for their work.

Estimation of the increase in hourly wage rates, the number of affected workers, and so on (if one was to assume that existing employment conditions and composition were to remain fixed and no other adjustments were made in the economy) involves for the most part basic arithmetic calculations. These have been estimated by the studies as noted above.

However, as with any regulatory change, this policy will induce responses from all economic actors in the region—including motivating changes in employee and worker behavior that may have secondary effects. These include: working more productively to "earn" the higher wage; inducing non-working residents to join the labor market; and allowing existing or new employees to accept wages below the new minimum in exchange for informal employment when formal employment is not available. To the extent that these responses occur, they may affect the overall effectiveness of the proposed minimum wage policy. These are discussed here, and how they are addressed by each of the studies is summarized.

Improving productivity:
The literature related to expected response of employees to an increase in the minimum wage is quite extensive as it is related to other widely-studied policies influencing work incentives, such as welfare reform and the Earned Income Tax Credit. The theory of *efficiency wages* offers guidance on how employees might respond to increased wages. This theory holds that the productivity of workers is dependent on their wages, and paying employees a wage higher than the market rate will induce higher levels of productivity (or, equivalently, less shirking). This increase in productivity raises the value of the employee. Alternatively, reducing pay will impact morale and increase turnover and hence increase labor costs. Both shirking and turnover represent costs to employers. While here it is a mandated increase in wages rather than an employer making a conscious decision to pay wages that are higher than market-clearing wages, the expected employee response would be similar. Workers who are paid more than their market-clearing wage may feel more valued at work, be more productive and be less likely to quit.

Increasing job search incentives:
A second response is related not only to current employees but to others outside the current labor market. The prospect of higher wages may heighten the incentive to work for individuals that had *not previously been in the labor force* (because of school commitments, childcare, geographic remoteness or other cost-benefit calculations). It may also draw additional labor force participants from outside the region that would be able to offset increased commuting costs with higher pay levels.

Increasing incentives to accept subminimum wages:
A third (although indirect) response might be seen in currently unemployed workers that are having difficulty finding employment at the new minimum wage, perhaps because their productivity level is less

than desired. Such workers may be willing to engage in informal labor at wages below the mandated minimum. A variant of this would be an increase in unpaid labor such as interning.

WHAT THE STUDIES FIND

All four studies agree that all affected workers will see an increase in hourly wages. Berkeley-IRLE and ERT-UCLA-IRLE assume an increase in employee morale and hence productivity and a decrease in the incentive for employees to quit (and thus lower turnover costs). None of the studies address the possibility that labor supply may be affected. While ERT-UCLA-IRLE discusses informal labor at some length, this is in the context of complementary policies that would decrease informal labor practices.

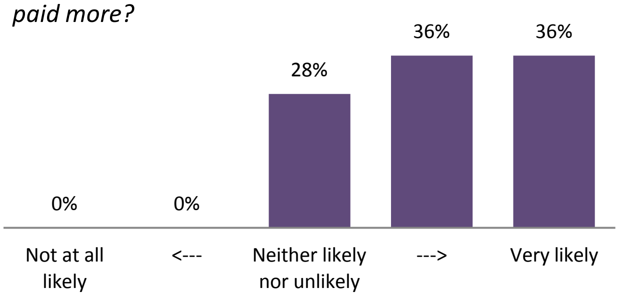
TABLE 1-2
Employee responses

	Berkeley-IRLE-1	Berkeley-IRLE-2	Beacon	ERT-UCLA-IRLE
Workers see increase in pay	Yes	Yes	Yes	Yes
Workers improve their morale and job performance	Yes	Yes	Not discussed	Yes
Additional workers join the labor force	Not discussed	Not discussed	Not discussed	Not discussed
Increase in informal labor	Not discussed	Not discussed	Not discussed	No

WHAT THE LAEDC SURVEY REVEALS

The LAEDC survey was not fielded to employees and offers no guidance as to the expected responses of employees to increases in the minimum wage. The single question that might apply (asked of employers about their employees) is the following:

QUESTION 9: What is the likelihood that ...
Your minimum wage workers will be happier at work and probably do a better job because they are being paid more?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.1.

WHAT THIS TELLS US:

Approximately 72 percent of all respondents believe it is likely that their minimum wage employees will be happier and more productive.

The mean response for small businesses (less than 5 employees) was especially higher at 4.9 (where 5.0 is "very likely."

EMPLOYER RESPONSES

WHAT THEORY SUGGESTS

Equally as certain, *employers* who currently pay some of their workforce hourly wages below the mandated minimum wage and who continue to employ the same number of workers (and hours) in those positions will face an increase in their payroll costs. In addition to the mandated hourly pay increases, payroll costs such as workers compensation, unemployment insurance, disability insurance and other contingent payroll costs will also increase.

It is also argued that employers are likely to retain an earnings ladder for current workers at pay rates above the minimum, so that workers who are not currently affected will receive an increase, perhaps not proportional to the change in the minimum wage, but enough to maintain a differential from those previously earning lower hourly wages. Pay scale bumps for these additional workers (which are commonly called “spillover” or “ripple” effects) will add to the incremental labor costs facing employers.

Employers and businesses facing increased labor costs will be motivated to respond to minimize the impact (or maximize the benefit) of this change in their cost structure. Potential responses include: reducing employment (either jobs or hours); reducing other payroll-related costs; recouping mandated labor cost increases by reducing wage growth of unaffected employees or reducing other payroll-related costs; replacing affected employees with more productive employees that are better able to “earn” the mandated wage; replacing workers through automation or technological improvements; passing cost increases through to their customers by increasing prices; accepting lower profits and returns to capital; and relocation or closure. These responses are discussed here, and how they are addressed by the four studies is summarized.

Reducing employment:
In economic theory, when the price of a good in a competitive market rises, the demand for it falls. It is thought that this theory can be applied to the labor market, but there are many departures from this theory. The labor market may not be competitive, there may be constraints to reducing demand for labor, and there may be more than a single labor market with highly-substitutable labor. Still, it seems likely that employers would respond to higher labor costs by attempting to cut back on employment. The possible means to reduce labor costs include reducing hours of employment, reducing jobs and relying on informal labor.

Reallocating labor costs across the payroll distribution:
Employers may otherwise attempt to compensate for the increase in payroll costs at the lower levels of the pay scale by reducing pay (or minimizing pay increases) of higher-paid employees, thus maintaining a similar overall labor bill. Employers may also choose to reduce benefits that are not mandated (or restrain growth of such benefits).

Labor-labor substitution:
If employers reduce hours of existing employees, the loss of this work would have to be compensated by increased productivity of those employees (or others). Existing employees may simply be expected to work harder to produce the same output in fewer hours. If employees are not able to increase their productivity, they may be replaced by employees that are already more productive. This is especially

more likely if, as suggested below, the pool of labor available to employers enlarges due to employee responses.

Capital-labor substitution:
Over time, employers may invest in labor-saving devices or processes in order to replace higher cost labor with capital. This requires investment and a favorable cost-benefit analysis, but it is certainly conceivable that at some minimum wage level capital-labor substitution will occur. The current balance between labor and capital used in production is based on prevailing prices (i.e., wages and interest rates), and changing relative prices will tip the scales in favor of one or the other.

Increasing prices:
If labor cost increases cannot be contained, employers may pass these costs on to their customers through increased prices. The evidence is fairly consistent that firms do pass on at least some of their increased costs to consumers. However, the ability of firms to raise prices depends on how reactive their customers are to price increases (the price elasticity of demand for their goods) and the competitive nature of their marketplace. It may be more difficult for firms to raise prices in competitive markets where not all businesses are similarly constrained, such as, for example, where larger companies have more ability to absorb cost increases, in export markets or where competition is with firms in non-impacted jurisdictions that are in close proximity. As a second order effect, if a firm is able to raise its prices, demand for its output will fall.

Reducing profits:
Firms that are unable (or unwilling) to contain labor cost increases and unable (or unwilling) to pass cost increases through by increasing prices will necessarily face reductions in operating profits. As profits are typically distributed to owners, reduction in profits will constitute a negative stimulus to the economy, which will offset to some extent the positive stimulus from any increased labor earnings. There is no reason to believe that employers will not maximize profits under the new institutional arrangement using whatever response mechanisms they can deploy, and choosing to tolerate lower returns to capital would be a last-best option.

Relocation or closure:
Employers that cannot adjust their business models or otherwise reallocate costs and that are at the margin of profitability—or find a more attractive alternative in which to invest their capital—will close. Relocation, a response discussed more fully below, is in effect a closure in the local market and a reopening in another market (evidently a more attractive alternative).

WHAT THE STUDIES FIND

The research teams come to different conclusions about how employers will respond.

Berkeley-IRLE assumes that employers will make no effort to reduce employment, and do not engage in labor-labor substitution. The outcome of these two assumptions is that all currently affected employees will experience increased hourly wages and increased overall earnings. Increased earnings are of course paid by employers, who will experience an increase in labor costs. The Berkeley-IRLE team assumes that firms will enjoy cost savings as affected workers will be less likely to quit and turnover costs will fall. Any net difference between the cost increases from wage gains and the costs savings from reduced turnover will be entirely passed though to consumers via price increases.

Beacon makes a different set of assumptions. In its report, it is assumed that firms are constrained in their ability to raise prices because of competition with firms in bordering cities that are not subject to the proposed ordinance. In order to survive, businesses will have to change their operations through employment reductions, or they may choose to relocate to escape the mandated wage increases. Similarly, new firms will be hesitant to locate in the City of Los Angeles if lower cost options are available nearby. Either of these options will result in a slowdown in employment growth and thus a loss of jobs from what has been forecast.

ERT-UCLA-IRLE make assumptions similar to Berkeley-IRLE regarding employer responses. In their view, employment reductions will not occur, nor will labor-labor substitution, hence all currently affected employees will enjoy increased overall earnings. The ERT-UCLA-IRLE team recognizes that increased labor costs may pressure firms in some industries, but, using a number of metrics, assert that many industries are “resilient” and will accommodate increased costs—though price increases, capital-labor substitution, improved business productivity, and increased demand for their products.

TABLE 1-3
Employer responses

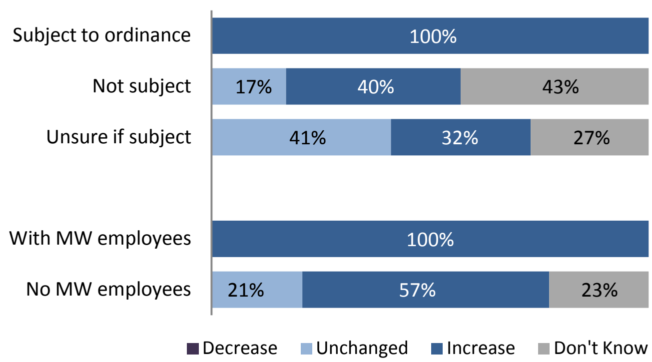
	Berkeley-IRLE-1	Berkeley-IRLE-2	Beacon	ERT-UCLA-IRLE
Labor costs increase	Yes, quantified as % increase in operating costs	Yes, quantified as % increase in operating costs	Yes, quantified as % of revenue	Yes, but not estimated
Ripple effects		Yes, estimated	Yes, estimated	
Raise prices	Yes, in some industries (restaurants and retail estimated)	Yes, estimated	Possibly, but limited ability to do so	Possibly, but not estimated
Reduce profits		Possible	Yes, but not estimated	Yes, but not estimated
Reduce employment (hours or positions or growth of these)	No, except restaurants and apparel manufacturing	No	Yes, estimated re: growth	Possibly, for industries with higher % of revenues paid in labor income
Reduce non-payroll costs	Not discussed	Not discussed	Yes, but not quantified	Possibly, for industries with low levels of profit/workers
Capital substitution	Not discussed	Not discussed	Yes, but not quantified	Possibly
Labor substitution	Not discussed	Not discussed	Not discussed	Not discussed
Relocation	No, except possibly apparel manufacturing		Yes, but not quantified	

All teams agree that the industries that would be most impacted by cost increases are those that employ a larger proportion of minimum wage workers, such as food services, apparel manufacturing, health care and social assistance, retail industries and administrative services.

WHAT THE LAEDC SURVEY REVEALS

The LAEDC survey was administered to 1,000 randomly-selected businesses in the Los Angeles region, soliciting employers' opinions as to how they would respond to the proposed minimum wage increases. Fifteen questions asked respondents to rate the likelihood of a particular response. Of these, nine addressed immediate responses within their own companies.

QUESTION 8: If you will be subject to the ordinance ...
What will happen to your overall labor costs?



No employer anticipates a fall in labor costs.

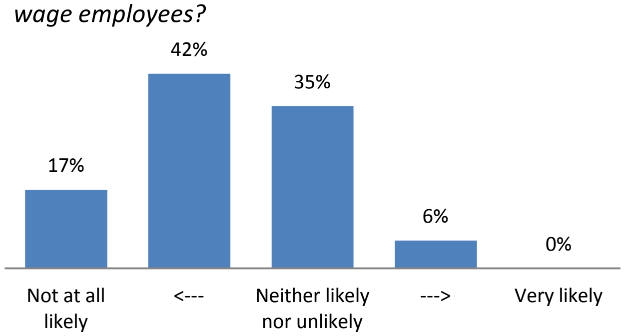
WHAT THIS TELLS US:

Employers understand that if they are subject to the ordinance and they have minimum wage employees, their labor costs will undeniably rise.

Still, 40 percent of employers who believe they are not subject to the ordinance expect their labor costs to rise. Also, 57 percent of employers with no minimum wage employees expect their labor costs to rise.

These findings suggest a border effect, or an expectation of ripple effects.

QUESTION 11: What is the likelihood that ...
You will reduce the number of your existing minimum wage employees?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 2.3.

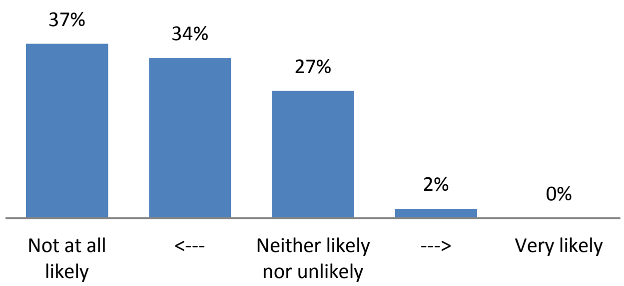
WHAT THIS TELLS US:

Employers do not seem convinced that they will reduce their minimum wage staffing numbers. Although 59 percent say this is not likely, 41 percent allow for the possibility—and 6 percent consider it somewhat likely.

Employers with current minimum wage employees suggest it is somewhat more likely that they will cut back on staffing (mean response of 2.8).

Accommodation and food services seems less likely (mean response of 2.0).

QUESTION 12: What is the likelihood that ...
You will reduce the hours of your existing minimum wage employees?



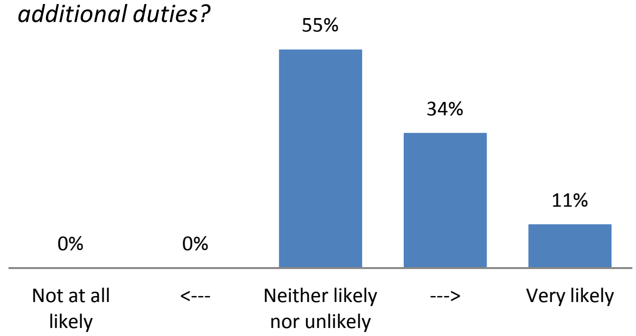
On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 1.9.

WHAT THIS TELLS US:

More consistently, 71 percent of employers do not think it likely that they will cut the hours of their minimum wage workers – although 29 percent do think this is at least a possibility.

This is more likely for employers in the arts and entertainment industry (mean response of 3.0).

QUESTION 13: What is the likelihood that...
You will require current employees to take on additional duties?



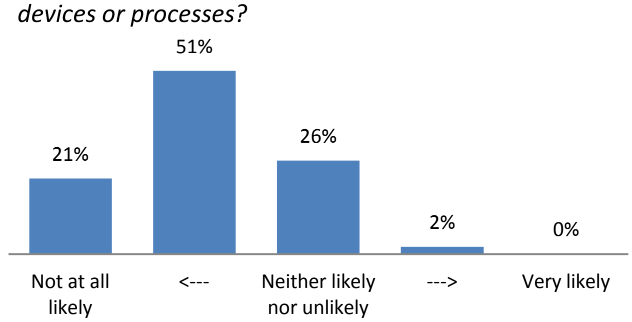
On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 3.6.

WHAT THIS TELLS US:

Approximately 45 percent of respondents will expect their employees to work a bit harder, while 55 percent are undecided.

Employers in the health care and social assistance industry are especially likely to expect increased productivity (with a mean response of 4.9).

QUESTION 14: What is the likelihood that ...
You will invest in labor-saving or labor-replacing devices or processes?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 2.1.

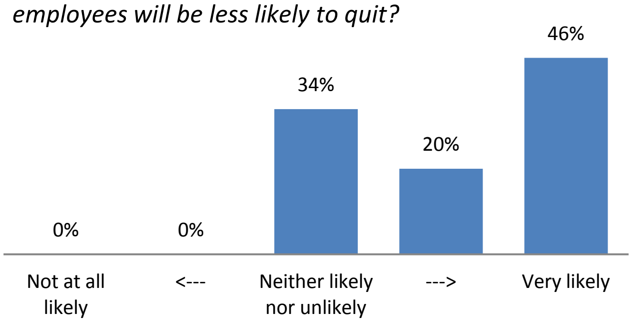
WHAT THIS TELLS US:

While 72 percent of respondents do not think this option is likely, 28 percent think it is at least a possibility, and 2 percent think it is somewhat likely.

This is slightly more likely for employers with minimum wage employees (mean response of 2.3), and less likely for firms in retail trade (mean response of 1.8).

This response speaks to firms' capital-labor substitution response.

QUESTION 15: What is the likelihood that ...
Your costs of employee turnover will decrease because employees will be less likely to quit?



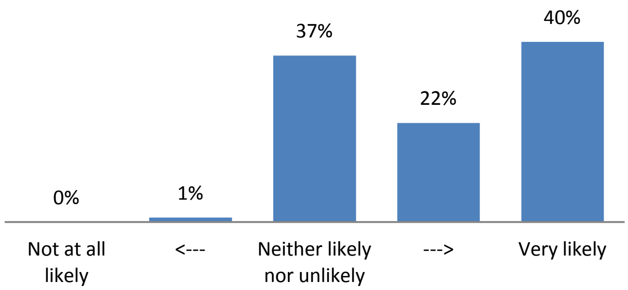
On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.1.

WHAT THIS TELLS US:

About two-thirds of respondents (66 percent) think it likely they will save in turnover costs will fall because their employees are likely to stay put. This holds for those with or without minimum wage employees.

This is more likely for employers in professional, scientific and technical services (mean response of 4.4).

QUESTION 16: What is the likelihood that ...
You will ask your customers to pay more for your goods or services to cover your increased labor costs?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.0.

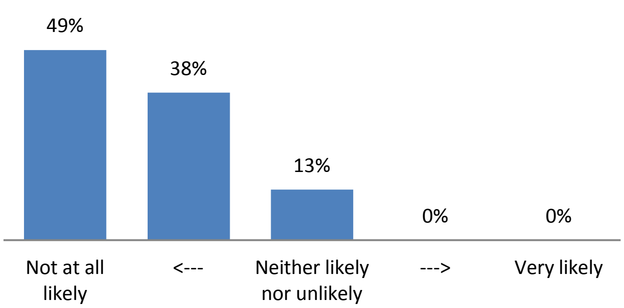
WHAT THIS TELLS US:

Almost 62 percent of respondents are likely to set their prices higher, but another 37 percent are undecided.

Respondents with current minimum wage employees are more likely to pass on their increased labor costs to their customers (mean response of 4.4) than those without such workers.

Almost all respondents in the labor-intensive professional, scientific and technical services expect to raise their rates (mean response of 5.0).

QUESTION 17: What is the likelihood that ...
Your profits will increase?



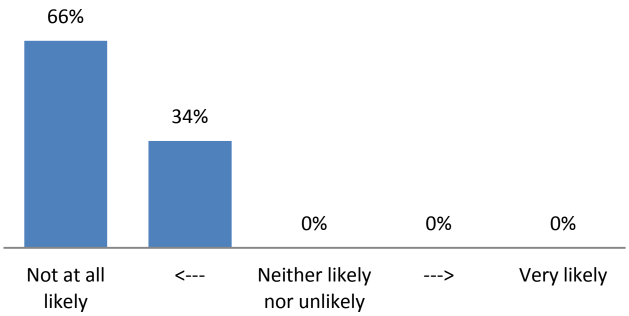
On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 1.6.

WHAT THIS TELLS US:

A super-majority of businesses expect that an increase in costs is not going to raise their profit margins.

These responses are consistent across employers whether they are subject to the ordinance or not and whether they currently have minimum wage workers of not.

QUESTION 19: What is the likelihood that ...
You will have to close your business?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 1.3.

WHAT THIS TELLS US:

Employers do not expect to go out of business.

There was no difference in responses among those with minimum wage workers and those without such employees, or among those that may or may not be subject to the ordinance.

All large companies (those with more than 500 employees) responded that this is not at all likely.

The survey responses confirm many of the expected strategies that employers will engage in once they are required to pay higher minimum wages. None of the surveyed employers expect their labor costs to decline, and many of those that do not believe they will be required to pay higher wages expect they will have to. Employers appear reluctant to replace current minimum wage employees or cut their hours, but they will make their current worker work harder to “earn” their higher pay levels. Many employers expect to pass their cost increases on to their customers, and although few expect their profits to increase, there is little expectation of going out of business.

Other potential strategies are surveyed below (see pages 21 through 26).

AGGREGATE ECONOMIC RESPONSE

WHAT THEORY SUGGESTS

As we have discussed above, the responses of employees and employers will impact overall economic conditions—often in opposite directions. For example, workers with higher wages can produce a stimulative effect if the aggregate of all workers have more income to spend. At the same time, if employers cut hours or jobs, then workers will have less income, offsetting the stimulative effect. Employers themselves, having to pay higher labor costs, may reduce their own regional purchases, also dampening any stimulative effect. The net effect on the economy is the result of adding up both sides of the ledger and comparing which side is larger. It is also worthwhile to remember that the overall net effect may hide negative impacts on some classes of workers or businesses, and positive impacts on other classes of workers or businesses.

We summarize how individual responses can be offset by others:

Workers who have been paid minimum wages will be paid higher wages than prior to implementation

- The increased earnings of these workers may produce a stimulative impact on the economy – *UNLESS:*
    - Their hours, jobs or non-payroll earnings are cut back
    - They are replaced by other (more productive) workers who had been earning those higher wages already
    - Employers reduce their local spending

Employers will face higher costs

- They may adjust operations and experience cost savings
    - This might reduce employment or labor earnings to those affected
- They may pass increased costs through to customers by increasing prices – *UNLESS:*
    - Their current competitive landscape makes this difficult
- In any event, price increases will dampen any potential stimulative impact on the economy – *AND:*
    - May disproportionately impact low-wage workers if the industries that are able to increase prices are those that are mostly frequented by low-wage workers

The potential transfer of funds from owners to employees may reduce inequality (all other things being equal) – *UNLESS:*

- The firms most affected are those with local owners whose spending patterns are similar to those of their employees

The increase in earnings may decrease poverty – *UNLESS:*

- Workers who experience an increase in wages were not members of families in poverty
- Those in poverty are not in the labor force or do not work
- Workers in poverty are replaced (i.e., lose their jobs)
- Workers in poverty lose access to government benefits which offsets their potential increase in earnings
- Families in poverty now face higher prices for goods they typically purchase

WHAT THE STUDIES FIND

The research teams come to different conclusions on the net effects on the economy, which again are the result of their assumptions.

Berkeley-IRLE assumes that employers will not reduce employment, and will not engage in labor-labor substitution. The outcome of these two assumptions is that all affected employees will experience higher hourly wages and higher overall earnings. Earnings are spent in the local economy, creating a stimulus effect. At the same time, employers will experience an increase in labor costs. After some cost-savings from reduced turnover, the remainder will be entirely passed though to consumers via price increases. Price increases will reduce demand for their products, offsetting to some extent the stimulus effect of the local spending of increased earnings, yet there will be an overall increase in activity at the County level and attendant job creation. According to Berkeley-IRLE, the overall net increase in earnings at the City level will be $1.4 billion in 2017 and $2.4 billion in 2019, with overall job growth.

Beacon concludes that firms will face increased labor costs and will be unable to pass them on to consumers. Cost increases make the region an unattractive alternative to neighboring cities to firms wishing to locate in the region or expand operations. Either of these options will result in a slowdown in employment growth and thus a loss of jobs of between 73,000 and 140,000 over five years from what has been forecast. Still, Beacon does predict that affected workers will enjoy increased earnings and generate a stimulus effect in the City (generating tax revenues).

ERT-UCLA-IRLE make assumptions similar to Berkeley-IRLE regarding employer responses. In their view, all currently affected employees will enjoy increased overall earnings, generating a stimulative effect and causing net job creation of almost 30,000 in 2017 and 46,400 by 2019. Firms will recoup their increased costs through increased sales without any offsetting reduced demand due to price increases.

None of the teams directly address impacts on poverty or inequality.

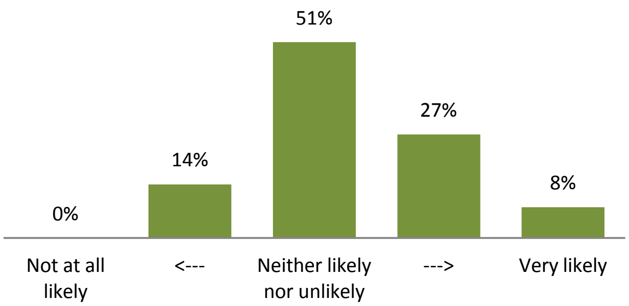
TABLE 1-4
Net Aggregate Economic Effects

	Berkeley-IRLE-1	Berkeley-IRLE-2	Beacon	ERT-UCLA-IRLE
Increased aggregate earnings	$1.831 billion (includes ripple)	$1.832 billion (includes ripple) $3.256 billion	Not isolated	$3.768 billion $5.900 billion
Reduced demand due to higher prices		Yes	Not discussed	No
Net increased aggregate earnings		$1.361 bi / $2.381 bi (net) of reduced public assistance and loss of worker income from reduced demand Without multiplier impacts	$4.4 billion with multiplier impacts	$4.1 billion / $6.5 billion with multiplier impacts
Increased City tax revenues	Not estimated	$2.64 million / $4.74 million	$23 million	Not isolated
Compositional changes of MW workers	Not discussed	Not discussed	Not discussed	Not discussed
Employment change	None reported	LA City: -1,552 / -3,472 LAC: 3,666 / 5,262	LA City: Between -73K and -140K over five years	29,635 / 46,400 (LA City and LAC)
Decrease in poverty				By assumption
Decrease in inequality				By assumption

WHAT THE LAEDC SURVEY REVEALS

As the survey questions employers on their potential responses, it does not address overall impacts. However, one question provides insight into the stimulative expectation of minimum wage increases.

QUESTION 10: What is the likelihood that ...
You will sell more goods or services because your customers will now have more pay?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 3.3.

WHAT THIS TELLS US:

More than a third (35 percent) of businesses believes it is likely that increased earnings of minimum wage employees will provide a stimulus to their firms.

Current minimum wage employers felt more optimistic about this possibility (mean response of 3.5).

Still, 65 percent are unsure or undecided. This is especially true for employers in the accommodation and food services industry, with a mean response of 2.7.

LAEDC'S ASSESSMENT

OUR READING OF THE EVIDENCE REGARDING THE IMPACT OF MINIMUM WAGE POLICIES

Our reading of the evidence regarding the minimum wage policy provides the basis for our assessment of the studies. In our review, we have surveyed much of the current new minimum wage research. Most of the citations listed by each study were consulted, and two authoritative compendium volumes were read. Additionally, numerous articles published in the popular press and by private entities were included in our scan of the literature. A partial listing of the literature reviewed is given in Appendix B.

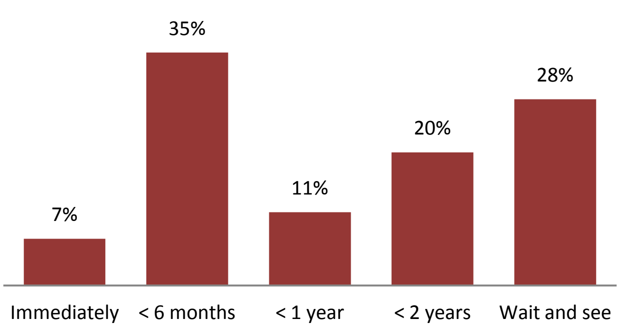
It must be noted at the outset that all four reports take a static and short-term approach to considering the impacts of the policies. For example, in spite of accounting for employment growth in the interim, they assume that today the policy is not in effect, and at a single date in the future, the policy takes effect with no intervening response or advance adjustment. Similarly, they assume that all initial response adjustments are fixed and unchanging, and no longer term adjustments occur. Only one team (Beacon) addresses employment growth and longer term business responses.

Further, the reports give very little attention to the geographic complexity of the County and its 89 individual jurisdictions. Here we assess the findings of these reports with an eye on regional dynamics, considering how both time and geography will impact the responses of the various economic agents. We find that the combination of longer time horizons and interregional impacts can lead to quite a difference in conclusions.

REGIONAL DYNAMICS

Our motivation to consider regional dynamic responses arises not only from our reading of current literature but from the responses to our survey questions. With respondents aware of the proposed timeline of mandated wage increases, they were asked what they expected their horizons to be for responding to the wage changes.

QUESTION 24:
When will any changes you do decide to make occur?



WHAT THIS TELLS US:

Only 7 percent of businesses expect to take immediate action—which were either small employers with less than 5 employees or very large employers with more than 500 employees. Another 35 percent will take action within 6 months (when the state level minimum wage increase takes effect).

Other businesses will phase in their responses over a longer period of time.

Retail, administrative and waste management firms will be quicker to respond, while the health care and wholesale industries will be slower.

Knowing that some responses will occur over a longer horizon is supported by literature showing that longer term impacts will be more impactful. Such impacts include, among other results, larger disemployment responses, labor-labor substitution, capital-labor substitution and slower business and employment growth.

In addition to time horizons, the question of the how employees and employers are likely to respond to policy changes in neighboring cities has not been addressed in much detail, other than trying to isolate the impacts of the policy on the City of Los Angeles by noting that many jobs in the City are held by outside residents.

While the research teams were tasked with estimating the impacts of the proposed policy only on the City of Los Angeles and not on the broader regional economy, it is nevertheless quite limiting not to consider the regional economy and how cross border effects of both employees and employers would impact the expected effects within the borders of the City of Los Angeles. With only a politically-defined line between them, the 89 separate jurisdictions in Los Angeles County are virtually indistinguishable to workers and firms alike. Firms will be competing across unnoticed borders for workers and customers, and employees will be competing for jobs across imaginary lines.

Beacon notes that there may be business flight, or at least slower business growth or job creation in the City of Los Angeles compared to other lower-cost neighboring cities, while Berkeley-IRLE-2 states that business location decisions are more likely to be based on real estate conditions than on labor markets and concludes that therefore this is not a considering factor.

Here we turn to several responses that cannot be viewed in narrow geographic or time dimensions but need a wider understanding.

REGIONAL DYNAMICS

Labor responses:
First, given the geographic proximity of many other cities that are not adopting similar wage increases, one can expect that there will be a labor supply response, as discussed above, since higher wages may heighten the incentive to work for individuals that had not previously been in the labor force (because of school commitments, childcare or geographic remoteness) across the region, adding to the local labor supply and generating competition for higher minimum wage jobs between neighboring jurisdictions.

This will leave lesser candidates competing for jobs in other regions, perhaps further depressing wages elsewhere, flooding those markets with less qualified candidates and increasing unemployment rates of those cohorts. The least qualified minimum wage workers, such as new labor force entrants, teens, ex-offenders and the lower-skilled, will have a difficult time finding employment at the higher minimum wage level.

Employer responses:
On the flip side of that market, firms in neighboring jurisdictions will face defections of their best-performing minimum wage workers and will need to compete in the labor market. While wage

differentials are not likely to disappear, wages will rise in bordering cities as a consequence of this competition.

Should firms in neighboring cities raise their minimum wages to compete for better minimum wage labor, they will face similar cost increases to affected employers and will be similarly faced with absorbing cost increases or raising prices (or a combination of both).

While Beacon asserts that firms will be constrained from raising prices because of competition from neighboring cities, and in competitive market theory this idea seems supported, it is also possible that firms in neighboring cities will be forced to raise their own prices to recoup their voluntary wage increases. Even if they are not facing increased costs, it is also possible that unaffected employers will match their prices as a free-riding response and gain a profit edge over their higher cost competitors.

Labor-labor substitution:
Still, whatever the net impact, the compositional makeup of minimum wage workers must be addressed and yet was overlooked in all of the studies produced for this discussion. Regional dynamics will enlarge the pool of labor available to employers, allowing employers to be more selective in their employment choice. Given more choice, employers will be more able to replace current (or departing) lower-skilled employees with others who have higher levels of skills or productivity. While employers may well have some loyalty to current employees and these adjustments may not occur immediately, over longer horizons such labor-labor substitutions will become more palatable.

Hence the assumption that all existing employees will remain in their current positions with their current hours and reap a wage increase without employers seeking to maximize productivity of each of these positions or minimize costs is not supportable. This necessarily means that labor-labor substitution (and, in the longer term, capital-labor substitution) will occur, and the very constituency that the minimum wage policy is intended to benefit will be the one to be most negatively impacted—meaning the lower-skilled, less productive individual who is most likely to be at the bottom of the earnings scale and one with the fewest options.

LONGER TERM

Relocations and closures:
Firms will weigh costs and benefits in their relocation and closure decisions. Any changes in prices will impact these decisions. Certainly, at some labor price, relocations and closures will occur. Not all businesses can pass their cost increases through to their consumers. Not all businesses will be capable of absorbing remaining cost increases. At the margin, increased costs will impact business profitability and will result in some business failure—independent of future growth of other firms. Whether or not these losses are offset by expected increases, the overall employment trajectory will be reduced and jobs will be lost.

While the costs of relocation may be too high for current firms to consider moving (and this will depend on the business), such costs do not fall on new firms and thus the issue does not speak to the likelihood of firms choosing where to locate in the future—or where to expand operations.

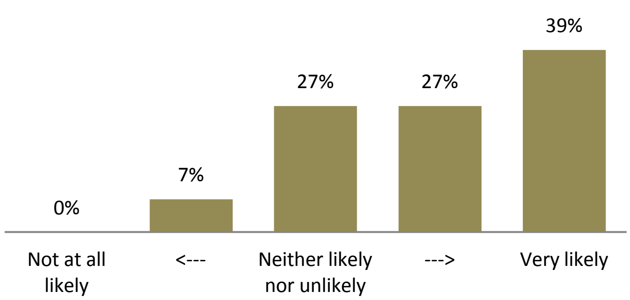
One final thought on the question of relocation: in large unincorporated areas of the County with few settled areas but in proximity to incorporated cities that are not raising minimum wages in their jurisdictions, one option for large employers or large centers of employment that are relatively far removed from the City of Los Angeles and its labor and product markets would be to pursue annexation—joining an adjacent incorporated city and avoiding the new minimum wage mandate if it was implemented in unincorporated areas. Of course, the plausibility of this option depends on the potential costs to the firm or employment center of adhering to the new mandate versus the costs of organizing and effecting such action. Time is also a factor, as wages may well rise in the targeted destination city either in response to the proposed ordinance or simply over time as labor markets tighten and inflation occurs.

Capital-labor substitution:
As noted above, the balance between labor and capital in production is based on prevailing prices, such as wages and interest rates. Changing relative prices will favor using one factor over the other. Both labor and capital has start-up costs, however, as does change in production processes. Over time, such costs are easier to absorb and amortize, and initial investment costs will be less of a barrier. With a longer time horizon, and at some cost of labor, employers will invest in capital to replace labor. Indeed, the story of the 20th century was one of capital-labor substitution in the United States, with capital equipment and automated processes replacing the need for a multitude of positions, including assembly line workers, office workers, drafters, secretaries, accountants, and others. Technological improvements will continue to reach into the occupational distribution of labor and will reach even those that are commonly thought to be irreplaceable, such as food servers, apparel manufacturers, drivers, dog-walkers, personal assistants, and many more.

WHAT THE LAEDC SURVEY REVEALS

Many of these above-described expected responses are confirmed by our survey results.

QUESTION 20: What is the likelihood that ...
You will increase the minimum wages you pay to match those paid in other cities or regions nearby?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.0.

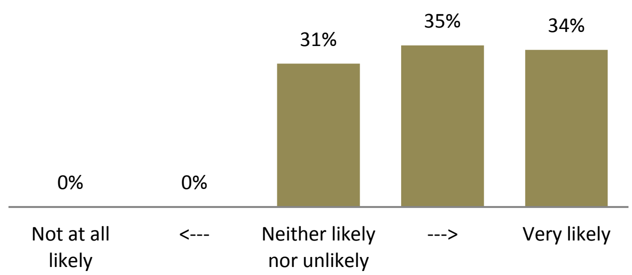
WHAT THIS TELLS US:

Almost two-thirds (66 percent) of employers appear ready to increase their minimum wages to match those paid elsewhere. This speaks to the competition employers will face in the labor market.

This held more for those not subject to ordinance (mean response of 4.4).

Employers in retail trade are less likely than the average to match wages (mean response of 3.8).

QUESTION 21: What is the likelihood that ...
You will increase the minimum wages you pay at least somewhat to compete with those paid elsewhere?



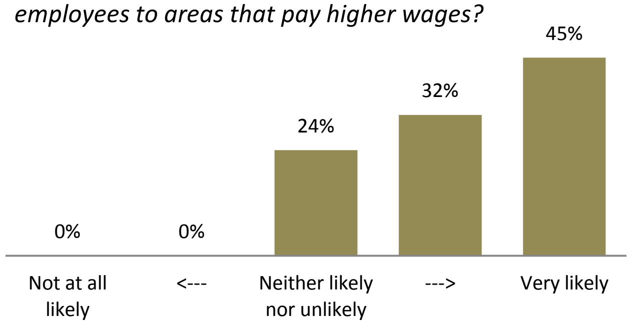
On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.0.

WHAT THIS TELLS US:

If not matching wages paid elsewhere, more than two-thirds (69 percent) of employers may be more willing to at least raise their minimum wages somewhat to compete with nearby labor markets.

This was again more true for employers not subject to the ordinance (mean response of 4.4), and for employers in the health care and social assistance industry (mean response of 4.2).

QUESTION 22: What is the likelihood that ...
You will lose your minimum wage or lower-paid employees to areas that pay higher wages?



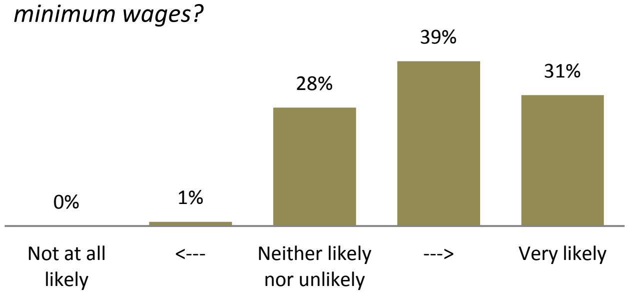
On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.2.

WHAT THIS TELLS US:

Increasing the wages of their lower-paid employees may be a response to employers' fear of losing employees to high-wage areas. Of all respondents, 77 percent believe that their employees will shop around.

The responses were consistent across employers, including those with or without minimum wage employees or those subject to or not subject to ordinance, and across industries.

QUESTION 23: What is the likelihood that ...
You will raise the price of your goods and services to match those charged in areas that pay higher minimum wages?



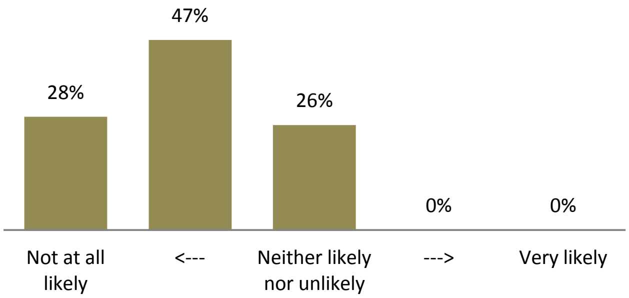
On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.0.

WHAT THIS TELLS US:

More than two-thirds (70 percent) of businesses are expecting to raise their prices to match those paid elsewhere.

Likelihood was higher for accommodation and food services (mean response of 4.4) and lower for retail (mean response of 3.8).

QUESTION 18: What is the likelihood that ...
You will move your business to a community with a lower minimum wage?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 2.0.

WHAT THIS TELLS US:

While 28 percent do not believe relocation is at all likely, 73 percent of respondents nevertheless think relocation might be possible.

Responses differ very little among respondents, but are least likely for administrative and waste management, arts and entertainment, professional and scientific services, and somewhat more likely for retail industries.

CONCLUSIONS

PENDING

DRAFT DOCUMENT

FINDINGS IN RELATION TO LA COUNTY

The four studies come to quite different conclusions. If any of these divergent findings is valid, how would the unincorporated areas of Los Angeles County be impacted if a similar policy would be enacted?

The answer depends not only on the findings, but also on the potential differences between the City of Los Angeles and Los Angeles County unincorporated areas regarding employees and businesses, since we would expect the employers and employee responses would be similar regardless of their geography—provided similar conditions attach, such as multiple political jurisdictions and competing product and labor markets.

We first identify any significant differences in the characteristics of employers and employees.

The unincorporated areas of Los Angeles County, while accounting for a large geographic region currently accounts for less than ten percent of all jobs in the County. The City of Los Angeles accounts for the lion's share of jobs with almost 40 percent of all payroll jobs in the County. The distribution of employment by industry in the three geographies is shown in Table 1-5.

TABLE 1-5
Distribution of Employment by industry (2013)

	LAC	City of LA	Unincorporated areas of LAC
Natural resources	0.2%	0.2%	0.5%
Construction	2.8%	2.4%	3.7%
Manufacturing	9.0%	6.2%	8.1%
Wholesale Trade	5.3%	4.4%	4.9%
Retail Trade	9.9%	8.7%	9.1%
Transportation and Warehousing	3.7%	3.4%	4.6%
Information	4.8%	4.1%	1.6%
Financial services	5.2%	5.9%	4.1%
Prof and bus services	8.3%	8.8%	6.8%
Administrative and Support and Waste Management	6.3%	5.7%	6.8%
Educational Services	2.6%	3.1%	2.5%
Health Care and Social Assistance	14.5%	14.4%	17.4%
Arts, Entertainment, and Recreation	1.8%	1.8%	1.2%
Accommodation and Food Services	8.9%	8.9%	8.5%
Other services	3.4%	3.8%	3.2%
Government	12.9%	18.1%	15.6%
Non-classified	0.4%	0.3%	1.5%
TOTAL	100.0%	100.0%	100.0%
TOTAL EMPLOYMENT	4,074,240	1,578,670	389,570
Percent of Los Angeles County	*100.0%*	*38.7%*	*9.6%*

In general, the mix of industries is quite similar between the City of Los Angeles and the unincorporated areas of the County, with a slightly larger proportion of health care and social assistance jobs in the unincorporated areas and a larger proportion of both professional services and government employment.

Table 1-6 provides a picture of smaller employers by industry, showing the proportion of businesses in each industry that has less than 20 employees.

TABLE 1-6
Percentage Share of Industry of Businesses with Less than 20 Employees in Los Angeles County

NAICS	Industry Sector Description	County Total	Unincorporated
11	Agriculture, Forestry, Fishing and Hunting	99.1%	100.0%
21	Mining, Quarrying, and Oil and Gas Extraction	80.8%	90.9%
22	Utilities	55.6%	57.7%
23	Construction	91.5%	91.6%
31	Manufacturing	74.3%	70.5%
42	Wholesale Trade	88.8%	86.6%
44	Retail Trade	85.7%	86.4%
48	Transportation and Warehousing	82.4%	87.7%
51	Information	87.9%	85.5%
52	Finance and Insurance	89.2%	91.2%
53	Real Estate and Rental and Leasing	95.3%	96.8%
54	Professional, Scientific, and Technical Services	93.1%	94.2%
55	Management of Companies and Enterprises	61.9%	61.8%
56	Administrative and Support and Waste Management Services	82.9%	84.6%
61	Educational Services	75.0%	77.4%
62	Health Care and Social Assistance	88.9%	86.2%
71	Arts, Entertainment, and Recreation	94.8%	90.9%
72	Accommodation and Food Services	73.7%	73.7%
81	Other Services (except Public Administration)	91.8%	92.9%
	Total for all sectors	87.3%	86.3%

Overall, these businesses account for 87.3 percent of all establishments in the County and 86.3 percent of all businesses in unincorporated areas. The share by industry between the County and its unincorporated areas are also very similar. Remember that the unincorporated areas account for less than 10 percent of all employment (and approximately 6 percent of all establishments) in the County.

On the employee side, we produce descriptive statistics for all workers in Los Angeles County similar to those estimated by the three research teams to again look for areas where workers might be different. Data are drawn from the outgoing rotation group files of the Current Population Survey (CPS) for August through December 2014 and January through March 2015. The samples are restricted to all workers aged 16 and over. Poverty thresholds are based on federal guidelines for 2014 and are adjusted for family size. We do not isolate the unincorporated areas of the County given its geographic complexity.

Descriptive statistics for all workers in Los Angeles County and in the United States are shown in Table 1-7. These are compared to those reported in Berkeley-IRLE-2.

TABLE 1-7
Selected Descriptive Statistics of all Workers

	All workers in LAC	All workers in US	All workers in LA City (from Berkeley-IRLE-2)
Teens	2.4%	3.4%	1.4%
Median age	40	41	39
Less than HS	16.0%	8.6%	15.6%
HS only (with some college)	41.7%	45.6%	42.9%
BA or above	33.8%	35.1%	33.4%
Full time workers	68.6%	66.4%	80.3%
Hispanic	50.0%	16.7%	44.9%
Below poverty (FPL)	27.6%	18.7%	7.2%
1 – 2X poverty (FPL)	35.4%	27.9%	18.4%
Share of workers that earn < $13.25	30.0%	22.6%	31.1%
Married	52.0%	56.0%	46.1%

We find similarity between workers in Los Angeles County and those in the City of Los Angeles, with a few exceptions:

- A higher percentage of workers in the City of Los Angeles have less than a high school diploma than countywide
- The proportion of workers that are teen workers is lower in City of Los Angeles than in both the County and nationwide
- There are more part-time workers as a proportion of all workers in Los Angeles County than the City of Los Angeles, and this is much closer to the national average
- The distribution of family incomes by poverty level is quite different, with fewer workers living in poverty in the City of Los Angeles
- More workers are single in the City of Los Angeles than across the County.

When isolating just those workers that would be directly affected by a minimum wage of $13.25, there are differences, but these are related to the characteristics fond in Table 1-7.

TABLE 1-8 *Descriptive Statistics of Directly Affected Workers*					
	LAC in 2017	LA City in 2017		Affected as % of all in category in LAC	Affected as % of all in category in LA City (from Berkeley-IRLE-2)
Teens	6.6%	3.3%		82.7%	80.8%
Median age	35	33 *			
Less than HS	28.5%	28.6%		53.3%	69.4%
HS only	52.5%	26.5%		37.7%	52.3%
BA and above	10.4%	13.7%		11.5% *	15.5%
Full time workers	59.7%	68.9%		23.5%	32.0%
Hispanic	68.0%	63.0%		40.8%	52.2%
Below poverty (FPL)	27.6%	16.6%		48.5%	86.7%
1 – 2X poverty (FPL)	35.4%	34.7%		46.6%	81.6% *
Married	43.2%	34.9%		24.9%	28.6%

We find similarity between affected (minimum wage) workers in Los Angeles County and those in the City of Los Angeles, with a few exceptions:

- A higher percentage of minimum wage workers in the County have a high school diploma than in the City of Los Angeles
- A higher percentage of minimum wage workers in the City of Los Angeles are full-time workers
- There are more part-time workers as a proportion of all workers in Los Angeles County than the City of Los Angeles, and this is much closer to the national average
- A higher percentage of minimum wage workers across the County have family incomes below the poverty line
- A higher percentage are married.

Also in Table 1-8, we show the proportion of all workers with each characteristic that will be affected by the minimum wage ordinance. For example, of all teen-aged workers in Los Angeles County, 82.7 percent will be affected by the ordinance.

While many of these characteristics are common between the County of Los Angeles and Los Angeles City, note the significant difference in the proportion of workers who live in families in poverty. In Los Angeles County, almost half of all families in which there is a minimum wage worker will be affected by the minimum wage would be directly affected, while in the City of Los Angeles, Berkeley-IRLE-2 reports that proportion to be 86.7 percent.

POLICY CONSIDERATIONS

MINIMUM WAGES AND POVERTY

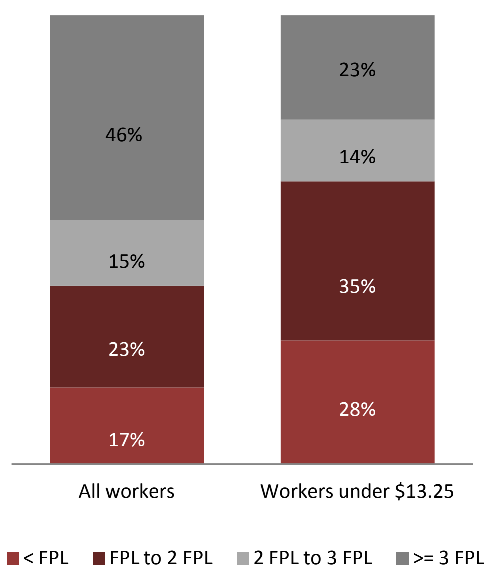
The literature regarding net positive impacts on earnings in the economy or on net positive employment impacts is sparse. Although it seems straightforward to make the correlation between raising hourly wages in general and lifting people out of poverty, in reality the connection is much more tenuous.

That poverty may not be impacted by increases in the minimum wage is due to several factors:

- Workers who may be affected by an increase in hourly wages are not members of families in poverty;
- Those in poverty are not in the labor force or do not work, which means that these families will not be affected by an increase in the minimum wage;
- The working poor are more likely to be replaced (i.e., lose their jobs);
- The working poor lose access to government benefits as their increased earnings exceed eligibility thresholds; and
- Those in poverty now face higher prices for goods they typically purchase.

To assess how valid any of these assertions are in Los Angeles County, we turn to the data. The first three bullet points can be examined using demographic data, which shows why minimum wage increases may not reach those in poverty as effectively as hoped.

Workers by family poverty status



Source: Analysis of CPS

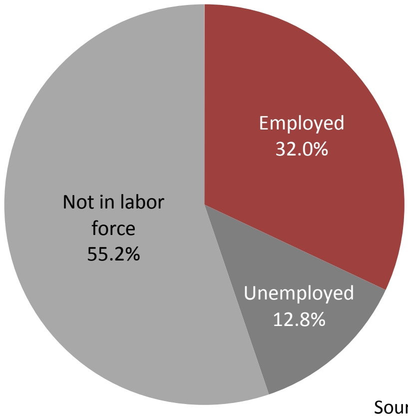
WHAT THIS TELLS US:

Of all workers in Los Angeles County, only 17 percent live in families with incomes under the federal poverty level (FPL). More than 80 percent live in families with incomes more than the FPL, and 61 percent are in families with incomes more than twice the FPL.

Of minimum wage workers with wages under $13.25 (who would be affected by the minimum wage increase), only 28 percent currently live in families in poverty.

More than 70 percent of minimum wage workers (up to $13.25) live in families that are not in poverty.

Employment Status of Individuals in Poverty



Source: 2013 ACS

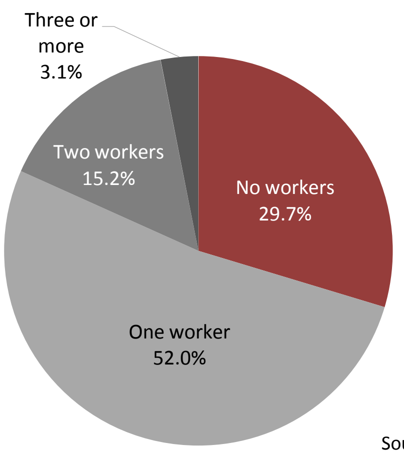
WHAT THIS TELLS US:

Of all working age civilians who have had their incomes fall below the poverty line in the prior twelve months, those individuals, only 32 percent were employed.

Exactly 68 percent of all working age civilians in poverty are not working.

Over 55 percent were not in the labor force at all, meaning the majority of this population will not be affected by changes in the minimum wage.

Families in Poverty by the Number of Workers



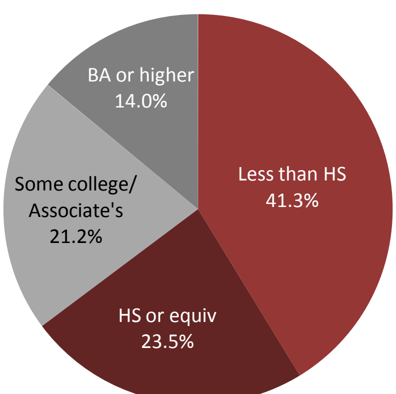
Source: 2013 ACS

WHAT THIS TELLS US:

In Los Angeles County in 2013, almost 30 percent of families living below the poverty level had no workers in their households. More than half of these were headed by a single female.

These households will not be affected by changes in the minimum wage.

Educational Attainment of Individuals in Poverty



Source: 2013 ACS

WHAT THIS TELLS US:

Many individuals living in poverty are those with the lowest levels of education. In Los Angeles County in 2013, more than 41 percent of those aged 25 years and older living in poverty had less than a high school education.

To the extent that these individuals are working, they will be among the most vulnerable to labor-labor substitution.

PHASED IMPLEMENTATION

The justification of phased implementation is predicated on the need to allow firms to "adjust" or "prepare" for the impending change in policy to minimize the potential negative impacts on their businesses.

How are firms expected to prepare for an increase in costs? As discussed in detail above, adjustments that firms are most likely to make are those that involve cost reductions, such as employment reductions, labor-labor substitution, capital-labor substitution and, in the extreme, relocation or closure. A phased implementation will allow firms to make such adjustments in anticipation of the policy *without their costs actually increasin*g. These costs increases would have been the increased earnings of minimum wage employees, which a phased implementation will postpone—hence the benefits of the policy (increased earnings) will be delayed while the costs (employment losses, employment changes) will be immediate. Rather than at least some minimum wage employees earning a raise at the expense of others potentially losing their jobs, phased implementation suggests that some minimum wage workers will lose their jobs before any raises are mandated.

INDEXING

The justification of indexing is based on real wage erosion and growing inequality. Allowing the minimum wage to be adjusted regularly by a standard measure of inflation prevents its real value from declining as the cost of living rises. From a fairness perspective, this seems to make some sense. It also removes the issue from repeated exhausting political battles in ever divisive legislative bodies.

Empirical evidence on the effects of minimum wage increases is largely based on policies that were one-time changes in the nominal minimum wage. The effects of these policy changes erode over time—not only because firms adjust but because the real value of the wage erodes and labor cost structures return to earlier conditions.

Indexing, in effect, makes the policy permanent, which has implications for an employer's longer term responses. Rather than anticipate that inflation will eventually

PART 2: IMPACT ON COUNTY BUDGET

COUNTY EMPLOYEES

This section evaluates the budgetary impact on staffing costs to the County that may result from increasing the minimum wage. The overall budgetary impact has two components: the change in budgeted costs associated with raising the minimum wage across the County labor pool, and the change in budgeted costs because of wage compression, where wage compression refers to pay adjustments to positions with an hourly rate higher than the current minimum wage but may be subject to adjustment relative to a given proposed minimum wage. (In the literature and as used above, this is more commonly called the "ripple" effect.)

DATA

Confidential data on County job classifications were provided to the LAEDC by County of Los Angeles staff. One data source contained data on job classifications with budgeted hourly rates ranging from the current minimum wage of $9.00 per hour up to $15.25 per hour (the higher of the proposed minimum wage rates being contemplated by the Board of Supervisors).

A second data source showed information for job classifications with budgeted hourly rates that were somewhat higher than the current and proposed hourly rates. These positions would be subject to wage compression if the minimum wage were increased as contemplated by the Board of Supervisors. County of Los Angeles staff estimated the likely pay adjustments that would likely be implemented to offset wage compression. Both data sources included job classifications (job title), hourly rate, bargaining unit, as well as the number of full-time and part-time positions in the current budget.

ANALYSIS

Baseline:
The current budget is assumed to be the baseline. A total of 45 job classifications in the baseline County budget pay between $9 per hour and $15.25 per hour. The County budget includes a total of 2,531 full-time and part-time positions across these job classifications for a budgeted total in wages and salaries, benefits and retirement (henceforth, staffing costs) of $75,842,489 million.

The baseline budget also includes 6 job classifications that may be subject to wage compression. These job classifications have hourly rates between $11.09 per hour and $14.46 per hour. The County budget includes a total of 1,693 full-time and part-time positions across these job classifications. Staffing costs associated with these positions amount to $60,201,821 million.

A summary of the positions is shown in Table 2-1. Altogether, there are 4,224 positions across 51 job classifications in the baseline budget with total staffing costs of $136,044,309. This amount is equal to 1.4 percent of the County's $10 million total budgeted staffing costs.

TABLE 2-1
Los Angeles County Job Classifications Subject to Minimum Wage Pay

	Job Classifications Subject to Minimum Wage Adjustments		Job Classifications Subject to Wage Compression Adjustments		Total Job Classifications Subject to Adjustments	
Prevailing Wage Range	Job Classifications	Number of Positions	Job Classifications	Number of Positions	Job Classifications	Number of Positions
$9.00 and $9.99	16	273	0	-	16	273
$10.00 and $13.24	13	786	2	330	15	1,116
$13.25 and $15.24	16	1,472	2	591	18	2,063
$15.25 and higher	0	-	2	772	2	772
Total	45	2,531	6	1,693	51	4,224

Effects of Minimum Wage Increases on the Los Angeles County Budget:
Effective January 1, 2016, the statewide minimum wage will increase from $9 per hour to $10 per hour. Sixteen of the 45 "minimum wage" job classifications have a current wage that falls between $9 per hour and $10 per hour. Upon increasing the minimum wage to $10 per hour across those 16 job classifications, the staffing costs across all 45 job classifications will be $75,975,477, an increase of $132,989.

Once the minimum wage is raised to $13.25 per hour, 29 of the 45 job classifications will experience a wage increase and the budgeted staffing cost across all 45 positions will be $80,274,622, an increase of $12,163,498 from the baseline budget at $9 per hour.

In addition, six job classifications will be subject to wage compression adjustments. These job classifications currently have hourly wages between $11.09 and $14.46. With wage compression adjustments, the new range for these job classifications will fall between $14.77 per hour and $17.68 per hour. The budgeted staffing cost for these positions will increase to $65,674,612, an increase of $5,472,792 from the baseline budget.

Thus, at a minimum wage of $13.25 per hour, the budgeted staffing cost across the 51 job classifications will be $145,949,234, an increase of $9,904,925 (or 7.3 percent) from the baseline.

With an increase to $15.25 per hour, all 45 "minimum wage" job classifications will be affected and the associated budgeted staffing cost will be $88,005,986. In addition, all six "wage compression" classifications will see wage adjustments with new hourly rates falling between $17.15 per hour and $20.35 per hour. The budgeted staffing cost for these positions will increase to $75,584,618, an increase of $15,382,798 from the baseline budget.

Thus, at a minimum wage of $15.25 per hour, the budgeted staffing cost across the 51 job classifications will be $163,590,604, an increase of $27,546,295 (or 20.2 percent) from the baseline.

To put these increases in perspective, it is helpful to note that the baseline (current) budgeted staffing cost of $136,044,309 for the 51 job classifications and 4,224 positions in this analysis is equal to 1.4 percent of the approximately $10 billion the County has budgeted in fiscal year 2014-15 and fiscal year 2015-16 for wages and salaries, benefits, and retirement across its entire payroll. With a minimum wage of $13.25 per hour, the share increases marginally to 1.5 percent of the total, and at $15.25 per hour the share increases to 1.6 percent. These results are summarized in Table 2-2.

TABLE 2-2
Budgetary Impact for Los Angeles County of Selected Minimum Wage Levels

Prevailing Minimum Wage	Minimum Wage Staffing Cost	Wage Compression Staffing Cost	Combined Affected Staffing Cost	Combined Affected Staffing Cost as % of Total County Budget Staffing Cost
$9.00	$ 75,842,489	$ 60,201,821	$ 136,044,309	1.4%
$13.25	$ 80,274,622	$ 65,674,612	$ 145,949,234	1.5%
$15.25	$ 88,005,986	$ 75,584,618	$ 163,590,604	1.6%

CONCLUSION

Given the small number of job classifications and positions that will be affected by minimum wage adjustments and wage compression adjustments, the proposed minimum wage ordinance will result in a relatively small impact on the County's total budget for wages and salaries, benefits, and retirement.

COUNTY CONTRACTORS

The County of Los Angeles contracts with a large number of private sector firms for the delivery of goods and services that the County is in need of. To assess the impact of requiring firms doing business with the County of Los Angeles, a survey will be conducted of county contractors.

Based on raw data from LA County staff, the county has 5,413 contracts with 3,778 contractors valued at approximately $6 billion in the aggregate. Approximately 3,100 contractors (81 percent of all contractors) have a single contract with the County. At the other end of the spectrum, two contractors hold 23 contracts with the County. Most others hold between 2 and 10 contracts.

A draft survey questionnaire has been developed by the LAEDC staff to gather information from the contractors who respond to the survey. The survey responses from those contracts will be used to make inferences about the entire population of contractors and contracts, which can then be used to broadly estimate the budgetary impact of possible increases in the minimum wage.

At time of submission of this report, the survey questions and structure had not been finalized. However, it is anticipated that an online survey platform will be used.

To ensure the best possible response rate, contractors will be contacted by their contract administrator within each County department via email. The email will describe the purpose of the survey and the type of information required to complete the survey and will contain a hyperlink to the survey platform. The online survey platform will capture the responses from each respondent and aggregate them to allow data analysis.

Once the responses are received by the County, analysis will be conducted by the LAEDC. It is expected that this analysis will be completed within 30 days of receipt of a sufficient sample of responses.

PART 3: MINIMUM WAGES AND THE ACA

COVERED CALIFORNIA

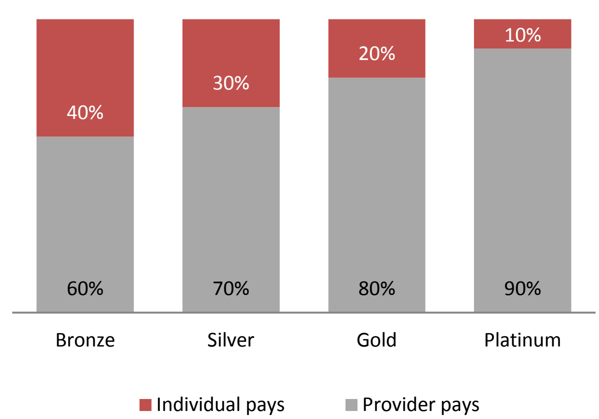
In 2010, California was the first state in the nation to enact a health-benefit exchange under the provisions of the Patient Protection and Affordable Care Act (ACA). Covered California (CC), the statewide implementation of those provisions, supplies consumers with a diverse range of care plans, as well as subsidies made available for low-income households.

COVERAGE LEVELS

In the California marketplace, consumers are primarily offered plans which fall into a four-tiered system: bronze, silver, gold and platinum. Lower-tiered plans offer lower monthly premiums in exchange for higher out-of-pocket costs for care. This means that consumers of higher-tiered plans pay larger monthly premiums, but are given greater coverage when receiving care. The amount paid by each individual depends on his/her age, coverage region (which is based on zip-code), household size, household income and preferred plan.

The estimated average out-of-pocket payment breakdowns for each plan are shown in the exhibit.

Estimated Cost Sharing by Plan Type



In addition to these plans, the Minimum Coverage and Enhanced Silver plans exist in order to provide care to young or low-income individuals, respectively. The Minimum Coverage Plan provides individuals younger than thirty years old, or those experiencing provable hardship, with lower premiums in return for lower coverage, which primarily includes worst case scenarios.

Low-income individuals may be eligible for a tax credit (entitled Premium Assistance), as well as Cost-Sharing Reduction subsidies, which give the consumer the option to purchase the Enhanced Silver Plan. Through the Enhanced Silver Plan, low-income households pay the lower monthly premium of a Silver plan yet receive the benefits of a Gold or Platinum level plan in the form of lower co-pays, deductibles, co-insurance, and out-of-pocket maximums. On average, and depending on the household's income level, the provider will pay 94 percent, 87 percent or 73 percent of the cost, with the individual paying the remainder.

During the application process, monthly household income is estimated in order to determine monthly premiums. While shopping for and comparing plans on the Covered California website, applicants enter their household income and zip code, as well as the ages of each member in the household. In the event that the applicant qualifies for Medi-Cal, the page displays an informative message on how the applicant can acquire healthcare through that service. Otherwise, if the applicant is eligible for the Premium Assistance subsidy, the total monthly cost, tax credit and applicant's monthly payment are displayed. In the event that the consumer is also eligible for Cost-Sharing Reductions, Enhanced Silver Plans are offered.

All plans must provide the comprehensive package of items and services referred to as "essential health benefits," which includes such care as: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services; chronic disease management; and pediatric services, including dental and vision.

AVAILABLE PREMIUM SUBSIDIES

Covered California provides healthcare subsidies to U.S. citizens, U.S. nationals, and lawfully-present immigrants who meet income eligibility requirements and purchase coverage through CC. Aside from Medi-Cal, CC also offers its Premium Assistance and Cost Sharing Reduction subsidies. Individual consumers are made aware of which subsidies they qualify for once the full application is completed.

Medi-Cal:
Medi-Cal provides zero- or low-cost healthcare to U.S. citizens and nationals living beneath 138 percent of the federal poverty level (FPL). Children under 19 years of age living in households which earn below 266 percent of the FPL are also covered by Medi-Cal. However, unlike Premium Assistance and Cost-Sharing Reductions, Medi-Cal is not available to lawfully-present immigrants.

Premium Assistance:
Premium Assistance is a tax credit made available to those who meet the previously mentioned eligibility criteria, and have an income between 138 percent and 400 percent of the FPL. When shopping for care, those eligible for Premium Assistance will notice an additional line added to the descriptions of each care option. The description for each plan contains: Total Monthly Premium, Monthly Premium Assistance (Tax Credit), and Your Total Monthly Payment (which equates to the total minus the tax credit). Because Premium Assistance is based on annual income, eligible consumers may opt to receive their full tax credit after filing taxes for the previous year. This approach leaves fewer margins for error, which would result in the household having to collect additional or pay back credits due to an inaccurate income estimate. Individuals who qualify for Premium Assistance must also file taxes whilst receiving benefits; they will be denied eligibility if they already have access to other public health coverage or affordable, minimum value health care provided by an employer. (Employer-provided healthcare is considered to be affordable if it costs the individual less than 9.5 percent of the household's income, and is considered minimum value if it pays at least 60 percent of the average cost of covered benefits.) Premium assistance is also available to lawfully present immigrants living below 138 percent of the FPL due to their lack of eligibility for Medi-Cal.

Cost Sharing Reduction:
Those eligible for Premium Assistance with an income between 138 percent and 250 percent of the FPL may also receive Cost-Sharing Reduction subsidies, which lessen an individual's out-of-pocket costs through lower copays, co-insurance, deductibles, and out-of-pocket maximums. Though qualifying

households may choose any type of plan, they will only gain the benefits of this subsidy by selecting an Enhanced Silver Plan.

The Enhanced Silver-Level Plan offers three tiers depending on income. Coverage levels and income thresholds are as follows:

Coverage level	Income Range
94%	$15,857-$17,235
87%	$17,236-$22,980
73%	$22,981-$28,725

The three tiers provide greater coverage than the Platinum, Gold and Silver levels, respectively. For this reason, those who fall within the 94 percent tier have no incentive to purchase a Gold or Platinum level plan, just as those who fall into the 87 percent tier have little incentive to purchase a Platinum level plan, and no incentive to purchase a Gold level plan. Those who fall into the 73 percent tier still gain from the subsidy, but may choose to forego the Enhanced Silver-Level Plan for a Gold or Platinum level plan if they wish additional coverage.

PRICING REGIONS OF LOS ANGELES COUNTY

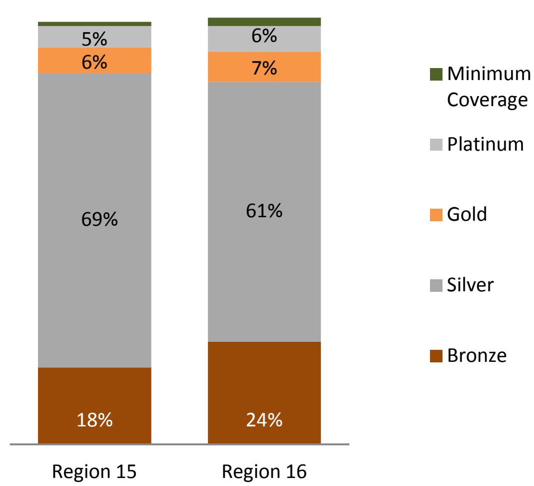
California contains 19 pricing regions; Los Angeles County accounts for regions 15 and 16. During the first open enrollment period in 2014, these regions experienced the second-largest and largest number of enrollees in the state, respectively. The following exhibits display the breakdown of enrollment distribution, as well as examples for pricing within each region.

Region	Signed up in first Open Enrollment Period	Receive Premium Assistance
15	177,797	90%
16	223,092	85%
Combined	400,889	87%

An overwhelming majority of applicants qualified for Premium Assistance. This is likely due to two major factors, the first being that healthcare became immediately more affordable, and the second being that a monetary penalty would be imposed on those who remained uninsured. Since 87 percent of all enrollees received premium assistance, it can be assumed that nearly 350,000 residents who enrolled in this period had incomes between 138 percent and 400 percent of the federal poverty level.

Most applicants enrolled in the Silver plan.

Enrollment by Plan (Los Angeles County)



There are a variety of providers in the California Care system. Their rates for coverage vary substantially, but the premium assistance paid by the federal government is determined by household income. Table 3-1 provides current rates offered by participating providers and the share of each that must be paid by the insured. These sample rates are for an individual aged 40.

TABLE 3-1
2015 Rates & Premium Assistance for 40-Year Old Individual

Providers	Share	$17,505 (150% FPL)	$23,340 (200% FPL)	$29,175 (250% FPL)	$46,680 (400% FPL)
Region 15					
Anthem EPO Anthem HMO Blue Shield PPO Health Net HMO Kaiser Permanente HMO L.A. Care HMO Molina Healthcare HMO	Individual	$32-$98	$96-$162	$169-$235	$230-$296
	Federal Gov't	$198	$134	$61	$0
Region 16					
Anthem EPO Anthem HMO Blue Shield PPO Health Net HMO Kaiser Permanente HMO L.A. Care HMO Molina Healthcare HMO	Individual	$46-$135	$111-$200	$-184-$273	$247-$336
	Federal Gov't	$201	$136	$63	$0

MINIMIMUM WAGE INCREASE SCENARIOS

The current minimum wage of $9 per hour yields an annual income of $18,720 for full-time, full-year work. An increase to $13.25 per hour would bring that annual income up to $27,560. By looking at the 2014 FPL alongside annual pay at the current and proposed minimum wages, we produce estimates of how the proposed increase will affect those currently earning the minimum wage.

Because the FPL varies based on household size, we select a few representative family scenarios. It should be noted that even though an increase in wage may not make consumers ineligible for their current subsidies, it will result in an increased monthly premium.

Individual, No Children

Currently, minimum wage earners in Los Angeles County working less than 36 hours per week qualify for Medi-Cal. What is more, those working less than 26 hours per week fall beneath the federal poverty line. By 2016, when the minimum wage is increased to $10, this group will still have to work over 24 hours per week to stay above the federal poverty level, or over 33 hours per week to pass the point of Medi-Cal and enter into Cost-Sharing Reduction and Premium Assistance eligibility. Given the proposed increase to $13.25 in 2017, individuals will have to work over 18 hours or over 25 hours per week to remain above the poverty level or become eligible for Cost-Sharing Reductions and Premium Assistance. At $15.25, these hours decrease to 15.5 and 21.4, respectively.

Ultimately, this means that present-day, individual minimum wage earner working 40 hours per week qualifies for Cost-Sharing Reductions, and will continue to do so until the proposed wage increase to $15.25 per hour, at which point such an individual will be bumped past the 250% FPL level, therefore making him/her eligible only for Premium Assistance. This change in subsidization could adversely affect this individual further if he/she was enrolled in an enhanced silver plan. In this situation, the individual would either have to receive fewer benefits if remaining with the silver or reducing to a bronze plan, or pay an even higher premium to retain the benefits of a gold or platinum level plan.

TABLE 3-2
Estimated Monthly Premiums for Individuals with No Children (Net of Subsidies)

Hourly Wage	Coverage Plan				
	Bronze	Silver	Gold	Platinum	Minimum Coverage
$9	$19-$60	$59-$130	$86-$191	$116-$216	$160-$206
$10	$41-$82	$81-$153	$109-$213	$192-$238	$160-$206
$13.25	$124-$165	$164-$235	$191-$296	$221-$321	$160-$206
$15.25	$168-$209	$208-$279	$235-$339	$265-$365	$160-$206

A similar individual working part-time at 20 hours per week currently falls beneath the FPL, and is therefore eligible for Medi-Cal. Such an individual will remain eligible for Medi-Cal regardless of wage increases.

Individual, Two Children

A minimum wage earning single parent working 40 hours per week with two children currently falls beneath the FPL, and is therefore eligible for Medi-Cal. By 2016, this individual will have risen above the FPL, and by 2017, he/she will trade Medi-Cal eligibility for Cost-Sharing Reductions, though the children will still be covered under Medi-Cal. This will remain unchanged with the increase to $15.25.

TABLE 3-3
Estimated Monthly Premiums for Individuals with Two Children (Net of Subsidies)

Hourly Wage	Coverage Plan				
	Bronze	Silver	Gold	Platinum	Minimum Coverage
$9	Medi-Cal				
$10					
$13.25	$27-$68	$67-$138	$94-$199	$124-$224	$160-$208
$15.25	$68-$109	$108-$180	$135-$240	$165-$265	$160-$206

Two Parents, Two Children

The following scenario highlights a dual-minimum-wage-income family working a combined total of 60 hours per week with two children. Such a family is currently eligible for Medi-Cal, and will trade this for CSR with the proposed increase to $13.25. Though the parents will switch to CSR with the final wage increases, the children will remain eligible for Medi-Cal.

TABLE 3-4
Estimated Monthly Premiums for Families with Two Parents and Two Children (Net of Subsidies)

Hourly Wage	Coverage Plan				
	Bronze	Silver	Gold	Platinum	Minimum Coverage
$9	Medi-Cal				
$10					
$13.25	$72-$155	$153-$295	$207-$415	$267-$467	$320-$412
$15.25	$126-$229	$227-$369	$281-$490	$341-$541	$320-$412

MONTHLY RATES AND DISPOSABLE INCOME

In Table 3-5, we provide estimates of the proportion of monthly income that premiums represent for each scenario. Plans with higher monthly premiums require less out-of-pocket cost when seeking medical attention. As we have seen above, increasing wages perpetuate higher monthly premiums for each plan; however, this increase is not proportional to the given rise in income. The four standard plans all require an increased portion of a consumer's income as said income rises. The one exception to this rule is the Minimum Coverage plan, which varies less among scenarios and between income levels, resulting in greater affordability as income rises.

TABLE 3-5
Estimated Ranges of Monthly Payment as % of Monthly Income

	Monthly Income	Bronze	Silver	Gold	Platinum	Minimum Coverage
Individual, No Children	$1,560	1.2%-3.8%	3.8%-8.3%	5.5%-12.2%	7.4%-13.8%	10.3%-13.2%
	$1,730	2.4%-4.7%	4.7%-8.8%	6.3%-12.3%	11.1%-13.7%	9.2%-11.9%
	$2,300	3.4%-7.2%	7.1%-10.2%	8.3%-12.9%	9.6%-14.0%	7.0%-9.0%
	$2,640	6.4%-7.9%	7.9%-10.6%	8.9%-12.8%	10.0%-13.8%	6.1%-7.8%
Individual, Two Children	$1,560	Medi-Cal				
	$1,730					
	$2,300	1.0%-3.0%	2.9%-6.0%	4.1%-8.7%	5.4%-9.8%	7.0%-9.1%
	$2,640	2.6%-4.1%	4.1%-6.8%	5.1%-9.1%	6.2%-10.0%	6.1%-7.8%
Two Parents, Two Children	$2,340	Medi-Cal				
	$2,600					
	$3,440	2.1%-4.5%	4.4%-8.6%	6.0%-12.0%	7.8%-13.6%	9.3%-12.0%
	$3,960	3.2%-5.8%	5.7%-9.3%	7.1%-12.4%	8.6%-13.6%	8.1%-10.4%

These results may be problematic for two main reasons. First, an increase in a consumer's income, which theoretically means a simultaneous increase in disposable income, causes the consumer to pay a disproportionately higher monthly premium, resulting in plans that are decreasingly affordable.

Furthermore, this situation is adversely compounded by a potential loss of access to previously available subsidies. This chain reaction could wind up making the consumer worse off than she was before the wage increase. This is evident in Table 3-6, which shows estimated disposable incomes of consumers net of the monthly premiums they will pay under the various plans. (Here we assume that disposable income is 75 percent of gross income.)

TABLE 3-6
Estimated Monthly Disposable Income Net of Monthly Premium

		Bronze	Silver	Gold	Platinum	Minimum Coverage
Individual, No Children	$1,560	$1,131	$1,076	$1,032	$1,004	$987
	$1,730	$1,236	$1,181	$1,137	$1,083	$1,115
	$2,300	$1,581	$1,526	$1,482	$1,454	$1,542
	$2,640	$1,792	$1,737	$1,693	$1,665	$1,797
Individual, Two Children	$1,560	Medi-Cal				
	$1,730					
	$2,300	$1,678	$1,623	$1,579	$1,551	$1,541
	$2,640	$1,892	$1,836	$1,793	$1,765	$1,797
Two Parents, Two Children	$2,340	Medi-Cal				
	$2,600					
	$3,440	$2,467	$2,356	$2,269	$2,213	$2,214
	$3,960	$2,793	$2,672	$2,585	$2,529	$2,604

CONCLUSION

Although not comprehensive, the scenarios outlined here suggest that an increase in wages results in slightly increasing disposable income for the individual with no children, but initially makes those with children worse off. With a $15.25 minimum wage, those with children can afford the lower-tiered plans and retain an increasing disposable income, but risk a lower disposable income by choosing higher-tiered plans.

APPENDIX A: SURVEY OF BUSINESSES

We report the findings of an independently-conducted survey commissioned by the LAEDC. This survey was conducted by Market Enhancement Group, Inc. (MEG).

The survey was conducted via telephone interview during normal business day hours on an appointment basis. Respondents were offered confidentiality as to their individual responses and identity. The LAEDC was not disclosed as the sponsor of the survey.

Survey respondents were selected on a random probability basis. The company reports that it achieved a completion rate of 75 percent of all members who were contacted.

One thousand surveys were completed during the week of April 13, 2015. The data is subject to a maximum sampling error of +/- 3.2 percent, and results are projectable with a confidence level of 95 percent.

The survey consisted of twenty-four questions, which were designed jointly by MEG and the LAEDC. The complete survey instrument is provided on the following pages.

MINIMUM WAGE SURVEY INSTRUMENT

Preamble:
As you may be aware the Los Angeles County Board of Supervisors voted unanimously Tuesday, March 31, to authorize a study to analyze and prepare for a potential minimum wage hike in Los Angeles County. The current minimum wage in Los Angeles County is $9.00 an hour, set by state law, which will increase to $10.00 an hour next January. The proposed increase in the City minimum wage would be to $10.25 next year, $11.75 the following year, and $13.25 in 2017. Other proposals will then raise the minimum wage by $1 for the following two years.

1. What percentage of your current workforce is paid the current minimum wage?

2. What additional percent of your current workforce is paid above the minimum but below $13.25?

3. $13.25 to below $15.25?

(If Q1.>0 then ask: Q4-Q6)

4. Of your minimum wage workers, what percentage are full-time workers?

5. Of your minimum wage workers, what percentage are seasonal or temp workers?

6. Of your minimum wage workers, what percentage are teenagers?

7. Will you be subject to the proposed ordinance?
   1=Yes
   2=No
   3=Don't know/unsure

8. If you will be subject to the mandated increase in the minimum wage as proposed, what will happen to your overall labor costs?
   1=They will decrease
   2=They will remain about the same
   3=They will increase
   4=Don't know/unsure

If you will be subject to the mandated increase in the minimum wage as proposed please rate the likelihood of each of the following on a 5-point scale, where "5" is very likely, "3" is neither likely nor unlikely, and "1" is not at all likely. *(Read – Rotate Order – Q9-Q23)*

9. Your minimum wage workers will be happier at work and probably do a better job because they are being paid more

10. You will sell more goods or services because your customers will now have more pay

11. You will reduce the number of your existing minimum wage employees

12. You will reduce the hours of your existing minimum wage employees

13. You will require current employees to take on additional duties

14. You will invest in labor-saving or labor-replacing devices or processes

15. Your costs of employee turnover will decrease because employees will be less likely to quit

16. You will ask your customers to pay more for your goods or services to cover your increased labor costs

17. Your profits will increase

18. You will move your business to a community with a lower minimum wage

19. You will have to close your business

20. You will increase the minimum wages you pay to match those paid in other cities or regions nearby

21. You will increase the minimum wages you pay at least somewhat to compete with those paid elsewhere

22. You will lose your minimum wage or lower-paid employees to other areas that pay higher minimum wages

23. You will raise the price of your goods and services to match those charged in areas that pay higher minimum wages

24. In any case, any changes you make will occur *(Read)*
    1 = Immediately
    2 = Within 6 months, before the state minimum wage increase kicks in
    3 = Within one year, before the $11.75 rate is implemented
    4 = Within two years, before the $13.25 rate is reached
    5 = I'll wait and see/Don't know/No changes

APPENDIX B: LITERATURE REVIEWED

The LAEDC surveyed much of the new minimum wage research. Most of the citations listed by each study were consulted (see below), and two authoritative compendium volumes were read. Additionally, numerous articles published in the popular press and by private entities were included in our scan of the literature.Individual papers which were found to be helpful in addition to the literature cited by the studies are listed below.

Comprehensive literature reviews:

- Belman, Dale, and Paul J. Wolfson, 2014. *What Does the Minimum Wage Do?* W.E. Upjohn Institute for Employment Research.
- Neumark, David, and William L. Wascher. 2008. *Minimum Wages.* MIT Press.
- Schmitt, John. 2013. "Why Does the Minimum Wage Have No Discernible Effect on Employment?" Center for Economic and Policy Research.
- Doucouliagos, Hristos, and T.D. Stanley. 2009. "Publication Selection Bias in Minimum Wage Research? A Meta-Regression Analysis." *British Journal of Industrial Relations* 47(2): 406-428.

On longer term impacts:

- Sorkin, Isaac. 2014. "Are There Long-Run Effects of the Minimum Wage?" *Review of Economic Dynamics.*– long run effects are much larger if permanent
- Aaronson, Daniel, Eric French and Isaac Sorkin. 2015. "Industry Dynamics and the Minimum Wage." Draft, Federal Reserve Bank of Chicago.
- Rohlin, Shawn M. 2011. "State minimum wages and business location: Evidence from a refined border approach," *Journal of Urban Economics* 69(1)
- Meer, Jonathan, and Jeremy West. 2013. "Effects of the Minimum Wage on Employment Dynamics." Draft, Texas A&M University.
- Baker, Michael, Dwayne Benjamin and Suchita Stanger. 1999. "The Highs and Lows of the Minimum Wage Effect: A Time-Series Cross-Section Study of the Canadian Law," *Journal of Labor Economics* 17(2).

On Prices:

- Aaronson, Daniel, Sumit Agarwal and Eric French. 2011. "The Spending and Debt Responses to Minimum Wage Hikes." Federal Reserve Bank of Chicago.
- Aaronson, Daniel. 2001. "Price Pass-Through and the Minimum Wage," *Review of Economics and Statistics* 83(1).
- MacDonald, James M., and Daniel Aaronson. 2006. "How Firms Construct Price Changes: Evidence from Restaurant responses to Increased Minimum Wages," *American Journal of Agricultural Economics* 88(2).
- Aaronson, Daniel and Eric French. 2007. "Product Market Evidence on the Employment Effects of the Minimum Wage," *Journal of Labor Economics* 25(1).

On Profits:

- Draca, Mirko, Stephen Machin and John Van Reenan. 2011. "Minimum Wages and Firm Profitability," *American Economic Journal: Applied Economics* 3(1).

Unpaid labor:

- Clemens, Jeffrey, and Michael Wither. 2014. "The Minimum Wage and the Great Recession: Evidence of Effects on Employment and Income trajectories of Low-Skilled Workers." Draft, University of California at San Diego.

On earnings:

- Neumark, David, Mark Schweitzer and William Wascher. 2004. "Minimum Wage Effects throughout the Wage Distribution," *Journal of Human Resources,* 39(2).

On labor-labor substitution:

- Guiliano, Laura. 2013. "Minimum Wage Effects on Employment, Substitution, and Teenage Labor Supply: Evidence from Personnel Data," *Journal of Labor Economics* 31(1).
- Hirsch, Barry T., Bruce Kaufman and Tetyana Zelenska. 2011. "Minimum Wage Channels of Adjustment." IZA Discussion Paper No. 6132. Institute for the Study of Labor.
- Neumark, David and William Wascher. 2011. "Does a Higher Minimum Wage Enhance the Effectiveness of the Earned Income Tax Credit?" *Industrial and Labor Relations Review* 64(4).
- Thompson, Jeffrey P. 2009. "Using Local Labor Market Data to Reexamine the Employment Effects of the Minimum Wage," *Industrial and Labor Relations Review* 62(3).

On poverty:

- Sabia, Joseph J. and Robert B. Nielsen. 2013. "Minimum Wages, Poverty, and Material Hardship: New Evidence from the SIPP," *Review of Economics of the Household* 1-40.

- MaCurdy, Thomas. 2015. "How Effective is the Minimum Wage at Supporting the Poor?" *Journal of Political Economy* 123(2).

- Burkhauser, Richard V., and Joseph J. Sabia. 2007. "The Effectiveness of Minimum Wage Increases in Reducing Poverty: Past, Present, and Future," *Contemporary Economic Policy* 25(2).

Literature cited by studies that was consulted:

- *On employment: Allegretto, Dube & Reich; (2011) on teens; Allegretto, Dube, Reich & Zipperer (2013); CBO (2014); Dube, Lester & Reich (2010); Dube, Naidu & Reich (2000) on restaurants; Dube, Naidu & Reich (2007); Jacobs & Reich (2014) on SF; Neumark, Salas & Wascher (2014); Meer & West (2015); Neumark & Wascher (1992) on teens; Potter (2006) on Santa Fe; Schmitt & Rosnick (2011); Yelowitz (Employment Policies Institute); Sabia, Burkhauser & Hansen (2012) on low-skilled youth*
- *On ripple effect: Phelan (2014); Wicks-Lim (2006)*
- *On capital substitution: Aaronson & Phelan (2014); Autor (2014a, 2014b)*
- *On prices, profits and rents: Aaronson (2001); Aaronson, French & MacDonald (2008); Allegretto & Reich (2014); Ashenfelter, Farber & Ransom (2010); Benner & Jayaraman (2012) on costs; Draca et al (2011) in Britain; Dube, Naidu & Reich (2007); Harasztosi & Lindner (2015) in Hungary; Manning (2003); Pollin (2004) on costs; Reich & Laitinen (2003) on costs*
- *On border effects: Allegretto, Dube, Reich & Zipperer (2013); Colbion et al (2015) on price differences; Dube, Lester & Reich (2010 and forth) on border relocation*
- *On earnings: Allegretto, Dube, Reich & Zipperer (2013) on teens and restaurant workers; Baskaya & Rubenstein (2012) on teens; Belman & Wolfson (2014); Dube, Lester, Reich (2010); Pollin (2004) on Santa Fe; Reich (2012) on San Jose; Schmitt (2013); Schmitt & Rosnick (2011) on SF and Santa Fe*
- *On poverty: Neumark & Wascher (2001); Sabia & Burkhauser (2010)*
- *On small biz: Fiscal Policy Institute (2006); Sabia (2006)*

INSTITUTE FOR APPLIED ECONOMICS
LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION
444 S. FLOWER STREET, 37TH FLOOR
LOS ANGELES, CALIFORNIA 90071

ATTACHMENT B

DEPARTMENT OF CONSUMER AND BUSINESS AFFAIRS

REPORT ON PUBLIC COMMENT FROM BUSINESSES REGARDING A POTENTIAL INCREASE OF THE MINIMUM WAGE IN THE UNINCORPORATED AREAS OF THE COUNTY

COUNTY OF LOS ANGELES
DEPARTMENT OF
CONSUMER AND BUSINESS AFFAIRS

Brian J. Stiger
Director

"To Enrich Lives Through Effective and Caring Service"

Date: June 8, 2015

To: Mayor Michael D. Antonovich
Supervisor Hilda Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Brian J. Stiger *Brian J. Stiger*
Director of Consumer and Business Affairs

REPORT – PUBLIC COMMENT FROM BUSINESSES REGARDING A POTENTIAL INCREASE OF THE MINIMUM WAGE IN THE UNINCORPORATED AREAS OF THE COUNTY

At the meeting of the Los Angeles County Board of Supervisors on March 31, 2015, your Board passed a motion directing the Interim Chief Executive Officer to enter into an agreement with the Los Angeles Economic Development Commission (LAEDC) to study the likely fiscal and economic impacts of raising the minimum wage in the unincorporated areas of Los Angeles County. In a separate motion, your Board directed the Director of the Department of Consumer and Business Affairs (DCBA), in consultation with the LAEDC and the Small Business Commission, to conduct hearings in the unincorporated areas of the County to provide business owners the opportunity to comment on a potential minimum wage ordinance. This report summarizes the comments received at eight (8) hearings and through an online public comment process.

I. Public Comment Operational Process

Pursuant to the motion, DBCA held one minimum wage hearing in each supervisorial district and a second hearing if requested by a Board office. DCBA convened a total of eight hearings throughout the County between April 21, 2015 and May 27, 2015 (*see* Appendix A).

In addition to convening the hearings, DCBA partnered with the Internal Services Department (ISD) to develop and launch an online comment form. This offered business owners the option of submitting their comments online via DCBA's website.

Consumer Services
500 W. Temple Street, Room B-96 • Los Angeles, CA 90012-2706
Telephone (800) 593-8222 • (213) 974-1452
Fax (213) 687-1137 • Website: dcba.lacounty.gov

Small Business Services
1100 North Eastern Ave, Los Angeles, CA 90063
Telephone (323) 881-3964
Fax (323) 415-8521 • Website: osb.lacounty.gov

DCBA consulted with representatives from the LAEDC to develop the questions for the online public comment form.

A. Hearing Venues and Format

DCBA collaborated with each Board office to select suitable hearing locations in their respective districts that could accommodate between 70 to 200 members of the public with ample parking. The hearings were held on weekdays in the early evenings with the exception of one hearing that was held on a Saturday. DCBA provided a Spanish translator at each hearing. All of the comments received at each hearing were audio recorded.

Board staff, DCBA staff, and Small Business Commissioners attended each hearing to manage the public comment process and serve on the panel to receive public comments. DCBA worked closely with the Small Business Commission's Executive Committee to plan and execute the hearings.

B. Public Comment Submission

DCBA developed a public comment card that was distributed to attendees at each hearing. The comment card had space for the speaker's contact information and demographic information. All of the fields were optional. The speakers completed the comment card and submitted it to DCBA staff prior to making a public comment.

Each hearing began with a statement that explained the purpose of the hearing, the process by which the hearing would be conducted, and how the DCBA would report the information back to your Board.

If business owners were unable or unwilling to make a public comment at a hearing, they were invited to submit an online comment at dcba.lacounty.gov. The online comment period was open from April 21, 2015 through May 31, 2015. The online comment form asked for demographic information, whether the business owner supported or opposed a wage increase, and provided space for businesses to share their thoughts, ideas, and suggestions on a potential minimum wage increase.

C. Marketing

DCBA engaged in a wide-reaching marketing effort to inform County businesses about the minimum wage hearings. DCBA reached out to individual business owners, business associations, various media outlets and social media in the following ways:

Direct Mail Letter Inviting Businesses to Hearings

- DCBA partnered with the Treasurer/Tax Collector to mail letters to approximately 6,700 business licensees in the unincorporated area of Los Angeles County and invited them to attend a hearing or submit an online public comment.

Email Sent to Certified Local Small Businesses

- DCBA sent emails to over 1,200 local small businesses that are certified with Los Angeles County inviting them to attend the hearings or submit an online public comment.

Email Sent to All Registered County Vendors

- Working with ISD, DCBA sent an email to over 46,800 businesses registered as County vendors inviting them to attend a hearing or submit an online public comment.

Outreach to Business Associations

- DCBA contacted the California Chamber of Commerce and various local chambers in Los Angeles County and provided information and materials about the opportunities to submit a comment. These chambers shared the information with their members.
- DCBA contacted targeted local chambers of commerce, inviting them to speak and asking that they disseminate materials about the hearings with their membership.

Press Release to Media

- Working with the County's Office of Countywide Communications, DCBA distributed a press release about the hearings and online public comment to approximately 150 media outlets in Southern California.

Promotional Flyers

- DCBA developed promotional flyers in English, Spanish, and Chinese advertising the hearings that were distributed at DCBA Small Business outreach events.
- DCBA shared copies of the flyers with Board office to distribute to their constituents.
- DCBA posted the flyer on its website.

DCBA Websites and Newsletters

- The hearings were highlighted on the front page of the LACounty.gov website.
- DCBA highlighted the hearings on the DCBA homepage with multiple listings including a top news story, prominent green promotional box, and link on graphic slider.

Social Media

- DCBA used social media to promote events and share information through Twitter accounts: @LACountyDCBA, @LACoSmallBiz, @LACoConsumidor (Spanish), and @LACountyDCBADir.
- DCBA used social media to promote events and share information through the LACountyDCBA Facebook page: www.facebook.com/LACountyDCBA

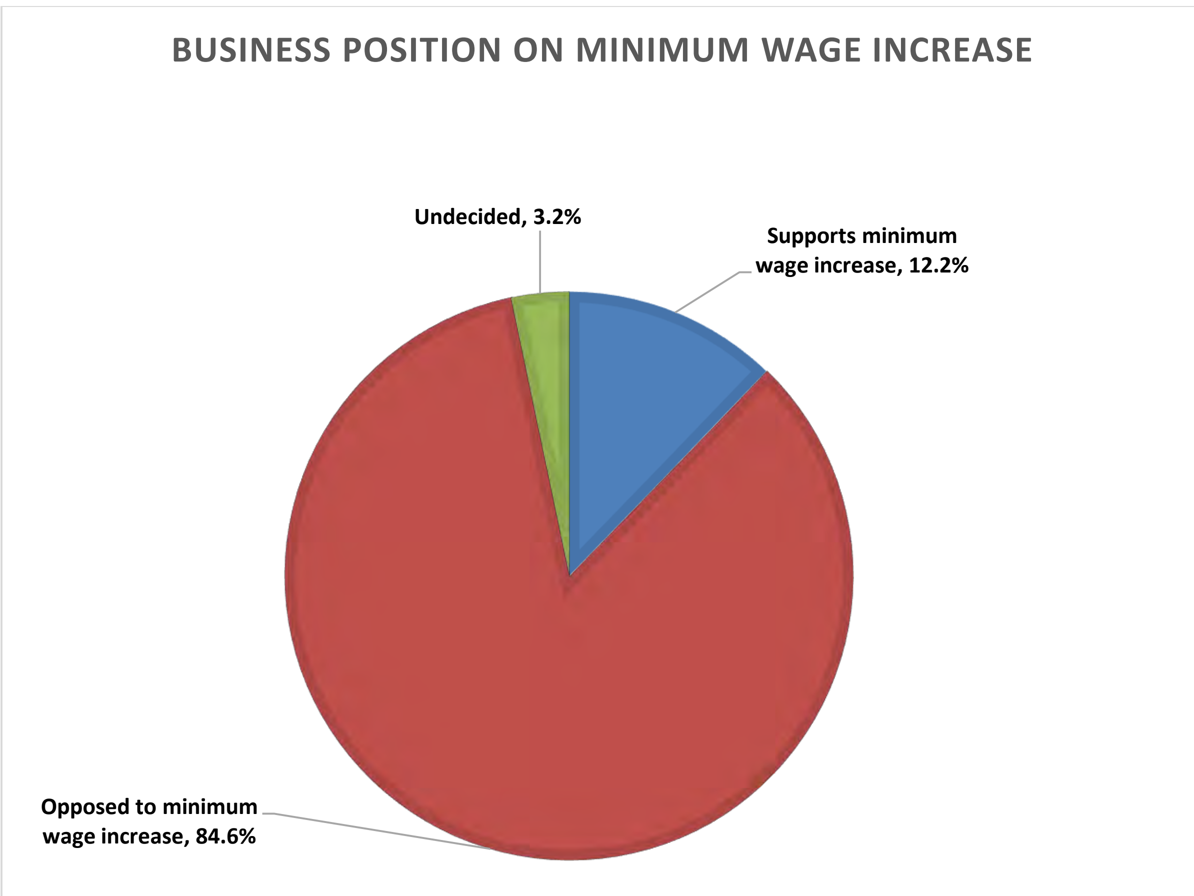
D. Comment Analysis

At the closure of the public comment period, a team of department analysts reviewed each comment and recorded each commenter's concerns, ideas, and suggestions, and whether the commenter supported, opposed, or was undecided regarding a potential minimum wage increase.

II. Results

a. Overview

DCBA received public comments from 246 businesses throughout the course of the public comment period. Of these 246 businesses, 84.6% of businesses opposed a minimum wage increase, 12.2% of businesses supported a minimum wage increase and 3.2% were undecided.



Of those who chose to state the size of their business, 50% of businesses had ten employees or less. When asked to identify their ethnicity, 64.7% of business owners who chose to state their ethnicity identified as White, 13.3% identified as Hispanic or Latino, and 2.9% identified as Black. Additional information about the demographics of the individuals that provided public comment is available in Appendix B.

Although the hearings were marketed to business owners, many additional members of the public attended the hearings or provided online public comments. These individuals represented community based organizations, organized labor, academia, and economists. DCBA received 535 comments from these non-business owners which are summarized in Appendix C.

b. Business Owners Opposed to a Minimum Wage Increase

DCBA received comments from 246 businesses of which 208 businesses were opposed to a minimum wage increase. The following summarizes the main concerns and suggestions from these business owners:

i. Relocation of Business

Multiple businesses expressed the concern that with a minimum wage increase, jobs would be outsourced to other counties, states, or neighboring incorporated cities that had not increased their minimum wage. Twenty-one business owners stated that they would move or consider moving their business out of the County of Los Angeles if the minimum wage was increased to avoid paying their employees the increased wage.

ii. Potential Layoffs

Twenty – eight businesses said they would lay off or consider laying off some workers if the minimum wage were increased. They stated that the higher cost of employing workers would cause businesses to reduce the workforce to stay in business.

iii. Closure of Business

Some businesses expressed that if the minimum wage was increased, they would be forced to close their business. Thirty-seven business owners cited closure of their business as a potential result of a minimum wage increase. For example, an owner of a small restaurant stated that he is putting all his profits into the business and has not received salary for himself. He believes there is a challenge for employees caused by the rising costs of living, but he found that a minimum wage increase would be too steep especially once the taxes, workers' compensation, and social security benefits are included. If the minimum wage increased, then he stated he will probably have to shut down his business. Another business owner with 80 employees stated that if the minimum wage increases, he "would be out of business the very next day."

iv. Suggested Exemptions for Small Businesses

Six business owners voiced the need for exemptions for small businesses. These business owners suggested that small businesses should receive an exemption to the minimum wage increase or receive some kind of governmental assistance in paying the higher wage. One business owner suggested an exemption for businesses making below a certain amount of revenue so that large businesses would pay the wage increases and smaller businesses would not be forced to pay increased wages until a later date when they could afford to do so in phases.

v. Suggested Exemptions for Food Services Industry

Many restaurant owners stressed an exemption for servers, bartenders, hosts and bussers. Sixteen business owners stated that because restaurants are legally prohibited from distributing server tips to cooks and other kitchen workers, an increase in the minimum wage would further contribute to the pay disparity between servers and cooks. Business owners said that California law allows restaurants to distribute tips among servers, bartenders, hosts and bussers, but not cooks, dishwashers, and cashiers. As a result, businesses stated that the pay for servers, bartenders, hosts and bussers would be disproportionately high with a minimum wage increase.

vi. Widespread Salary Increases for all Employees

Some business owners were concerned that if the minimum wage increases, they will have to increase wages for all of their employees to maintain equity. Seven business owners said they were concerned about the fiscal impact of raising the salaries of other employees in addition to minimum wage workers so that salaries of all workers are properly aligned. A food truck owner stated that an increase in the minimum wage would require his company to increase salaries for minimum wage workers and workers making above the minimum wage in order to proportionally increase all salaries and maintain employee morale.

vii. Increased Auxiliary Costs

Business owners urged the County to consider the increased auxiliary costs that would increase with a higher wage such as payroll taxes, workers' compensation and unemployment insurance. Twenty-three business owners expressed concern over the fiscal impact of other costs associated with an increase in the minimum wage. Some businesses suggested raising taxes and other expenses associated with payroll at a slower pace to give businesses more time to absorb the costs.

viii. Potential Reluctance to Hire Lesser Skilled Workers

Business owners stated that they would also expect their workers to have a more advanced skillset in return for the higher pay, and would pass over less skilled workers for job opportunities. Twenty-five business owners said that increasing the minimum wage to proposed levels would make them less likely to hire low skilled workers or young workers. Business owners expressed that it may be more difficult for high school and college students to find jobs because they would be passed over in favor of more experienced workers, as the training costs of hiring unskilled workers would be prohibitive.

ix. Set Minimum Wage at State Level

Six business owners, from both the hospitality industries and the food services industries commented that minimum wage must be set at the state level. They cited the unique nature of Los Angeles County with incorporated areas next to heavily populated unincorporated areas as the reason why a wage increase in the unincorporated areas of the County would be problematic. Businesses stated that they would not be able to compete with those across the border in incorporated areas where the labor cost would be 30-50% lower.

x. Increased Wage Passed to Consumers

Thirty-six business owners stated that they were opposed to a minimum wage increase because increased wages would lead to an increased cost of goods and services to consumers. Businesses stated that they would need to increase their costs in order to stay profitable in light of higher employee salaries.

c. Business Owners in Support of a Minimum Wage Increase

Of the 246 businesses DCBA who commented, 30 supported a minimum wage increase. Many of these businesses stated they are currently paying their employees above the minimum wage, and these businesses expressed that paying their employees a “living wage” was important to them. The following areas highlight the main reasons cited by multiple business owners as to why they support a minimum wage increase.

i. To Provide Living Wage

Businesses continually stated that the minimum wage has not increased in line with the increase in the cost of living. Businesses remarked that wages have not kept pace with the cost of living in Southern California. Three businesses stated that raising the wage in line with cost of living was a “moral imperative.” Seven businesses commented that a minimum wage increase would allow workers to purchase basic life necessities.

ii. To Lift People Out of Poverty

Four businesses stated that the only way to lift low wage earners out of poverty is to boost the middle class by increasing the minimum wage. Three business owners stated that the pay increases workers would receive with a minimum wage increase would be used to spend on goods and services business create and the increased wages would be directly re-invested back into the local economy.

iii. To Increase Worker Productivity

Business owners also cited an increase in the productivity of their workers as a reason to increase the minimum wage. They stated that workers would take more pride in their work and feel more valued as employees if they were able to make enough money to pay for life's basic necessities and support their families.

A small business owner with 7 employees stated that last year, he voluntarily raised his wages from $12.50 to $13.50 an hour and is raising wages to $15.50 by 2020, with many positive results. He reported that worker absenteeism has significantly decreased, that workers are motivated and on task, and that workers are taking more personal ownership of their projects. This sentiment was echoed by several other business owners.

iv. Decreased Dependency on Public Assistance

Business owners voiced their belief that an increased minimum wage would put more money into the hands of the "working poor" who are currently dependent on welfare to make ends meet. Five business owners expressed that they would have to pay less into social benefits for those not making a living wage.

v. To Follow the City of Los Angeles

Two businesses stated that the County should raise the minimum wage in order to stay in line with the City. These businesses stated that the County should be able to keep up with what the City is requiring businesses to pay workers.

d. Business Owners Undecided

Of the 246 businesses DCBA received comments from, 8 were undecided regarding whether they would be supportive of or opposed to a minimum wage increase in the County.

i. Balancing Living Wage with Increased Operating Costs

All businesses who were undecided stated a need to pay workers a living wage. One business commented that rent has gone up about 43% and if people are making more money, they will spend more money.

Some businesses expressed concerns that an increase in the minimum wage could result in some workers being laid off or reduced to part time employees, which will lead to significant financial hardship.

ii. Status of Potential Exemptions

Four of the undecided business had significant questions about which businesses, if any, would be exempt from a minimum wage increase. These businesses were looking for more information about exemptions for businesses before taking a position. These businesses asked specifically about a carve-out for small businesses and non-profits. One non-profit expressed concern that they may need to reduce employee work hours, and therefore the people they assist would receive a lower level of service. Another business stated that a minimum wage increase should include an exemption for tipped employees who generate a significant portion of their income from tips, as this creates an income disparity between two workers who are hired at minimum wage when one supplements a considerable part of their income with tips. This business stated that this income disparity can create resentment and division among workers in a small company. Therefore, unless more clarity is given about which industries would be exempt from a minimum wage increase, these businesses were undecided.

III. Questions

DCBA appreciates the opportunity to report back to your Board on this important issue. If you have any questions or need additional information, please contact me at (213) 974-9750.

Appendix A

Business Hearing Schedule

1) Tuesday April 21, 2015 (Fourth District)
   Burton Chace Park, Marina Del Rey, CA
   6:00 pm
2) Thursday April 23, 2015 (First District)
   East Los Angeles College, Monterey Park, CA
   6:00 pm
3) Monday April 27, 2015 (Second District)
   Lennox Library, Lennox, CA
   6:00 pm
4) Thursday April 30, 2015 (Fifth District)
   Antelope Valley College, Lancaster, CA
   6:00 pm
5) Thursday May 7, 2015 (Third District)
   Topanga Community House, Topanga, CA
   6:00 pm
6) Monday May 11, 2015 (Fifth District)
   Altadena Community Center, Altadena, CA
   6:00 pm
7) Saturday May 16, 2015 (First District)
   San Angelo Park, La Puente, CA
   10:00 am
8) Wednesday May 27, 2015 (Fourth District)
   Rowland Heights Community Center, Rowland Heights, CA
   6:00 pm

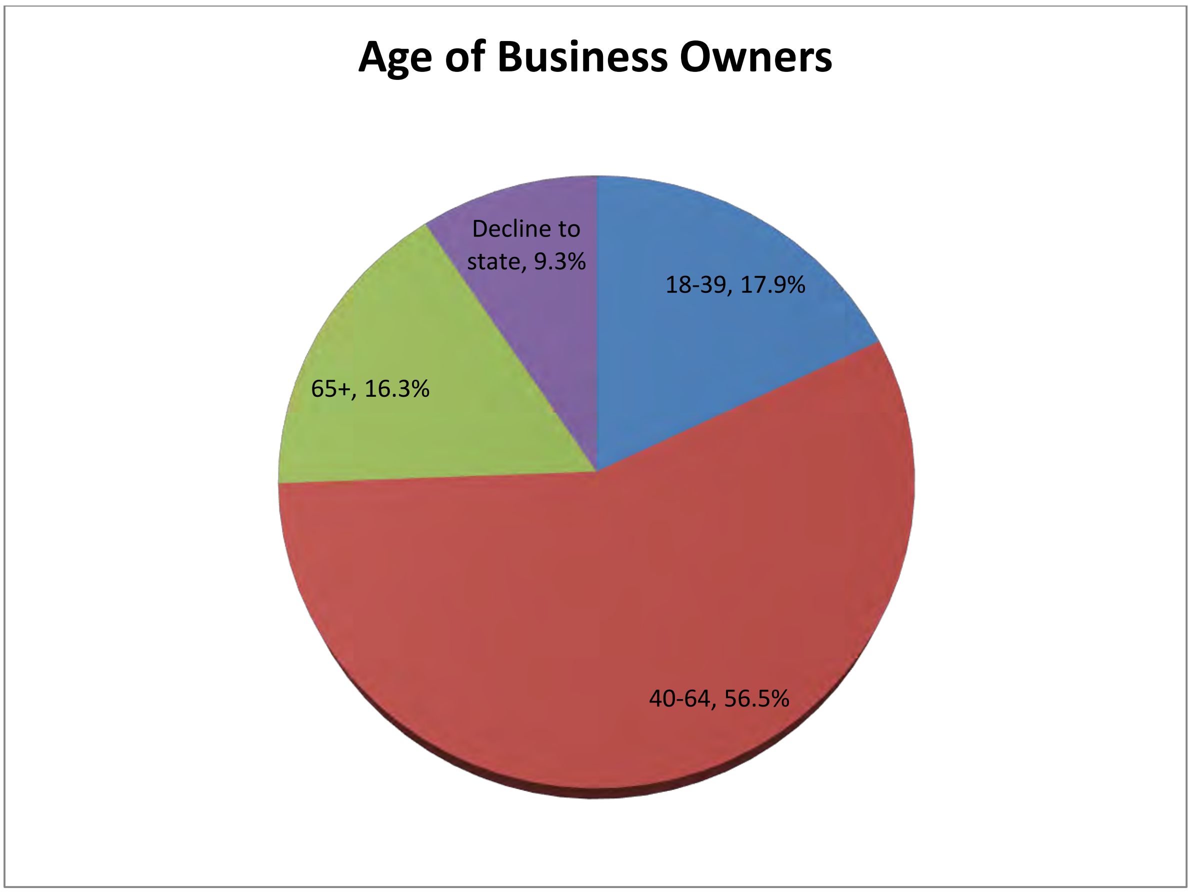
Online Public Comment Period

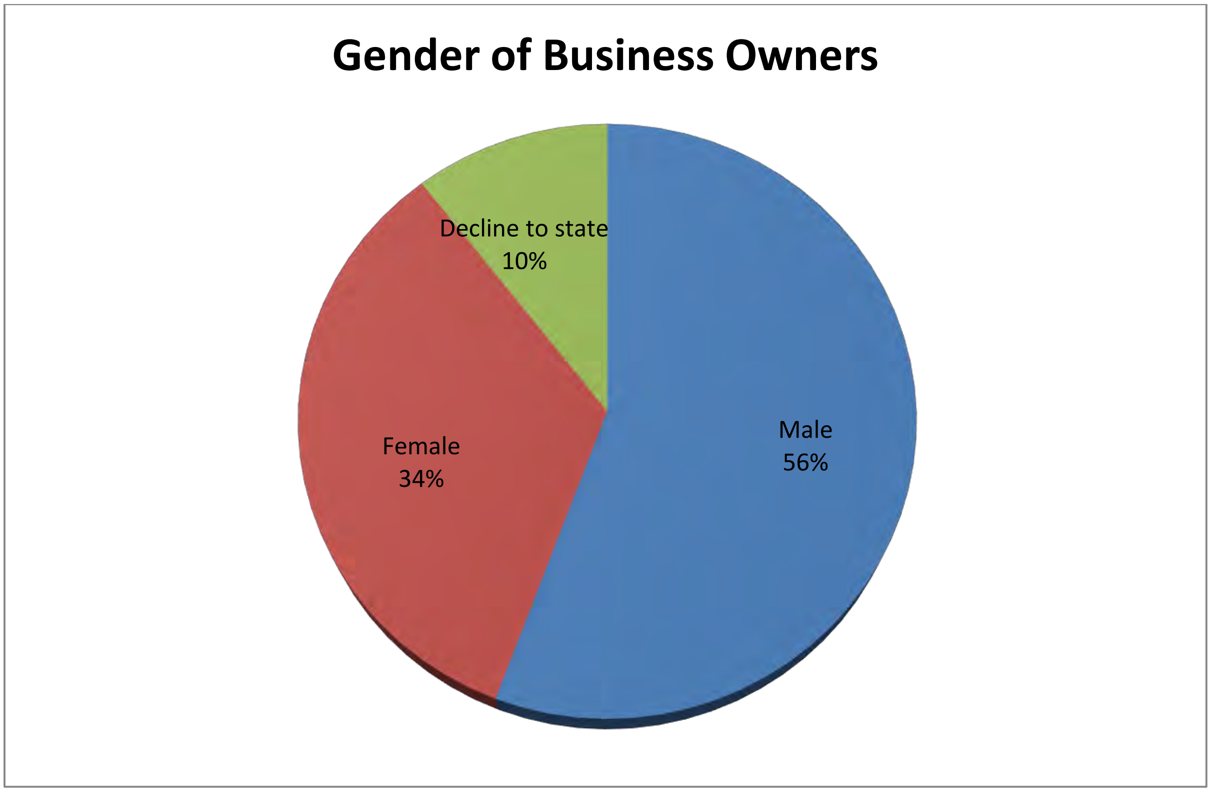
Online public comments were open at dcba.lacounty.gov from Tuesday, April 21, 2015 through Sunday May 31, 2015.

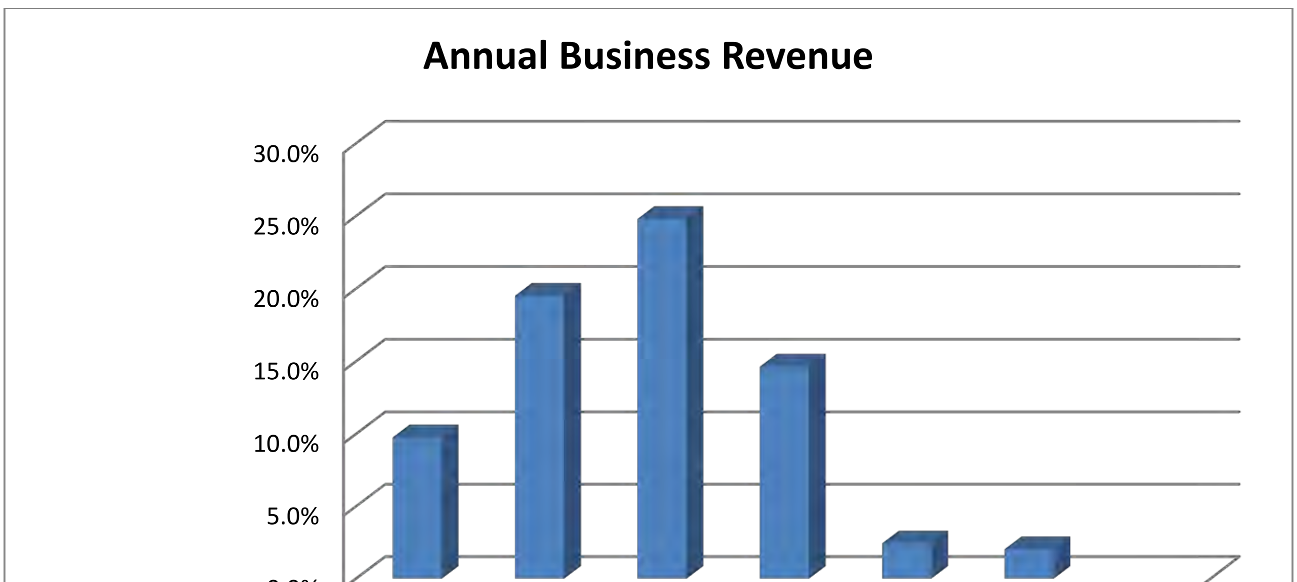
Appendix B

Data Tables

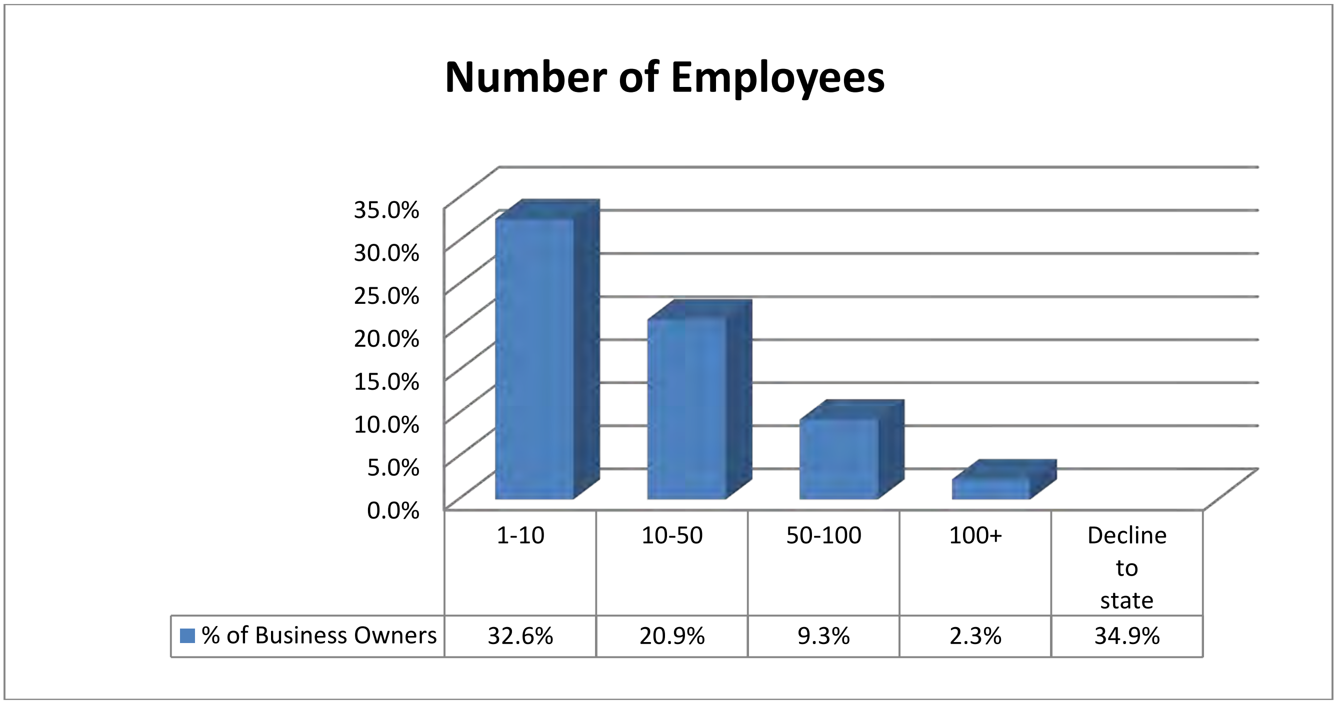
The following represent the demographic information of the business owners who provided a public comment from April 21, 2015 through May 31, 2015 both in person at a hearing and online:



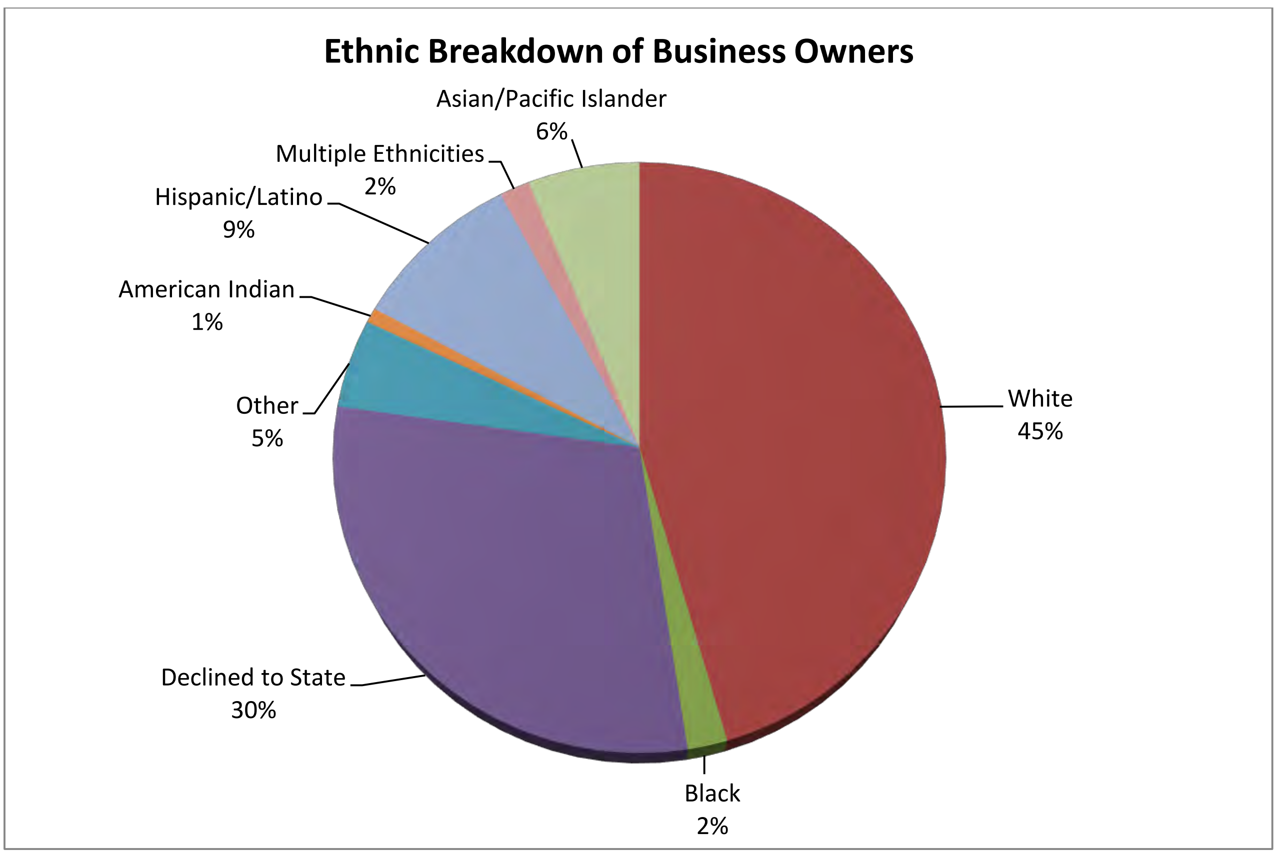


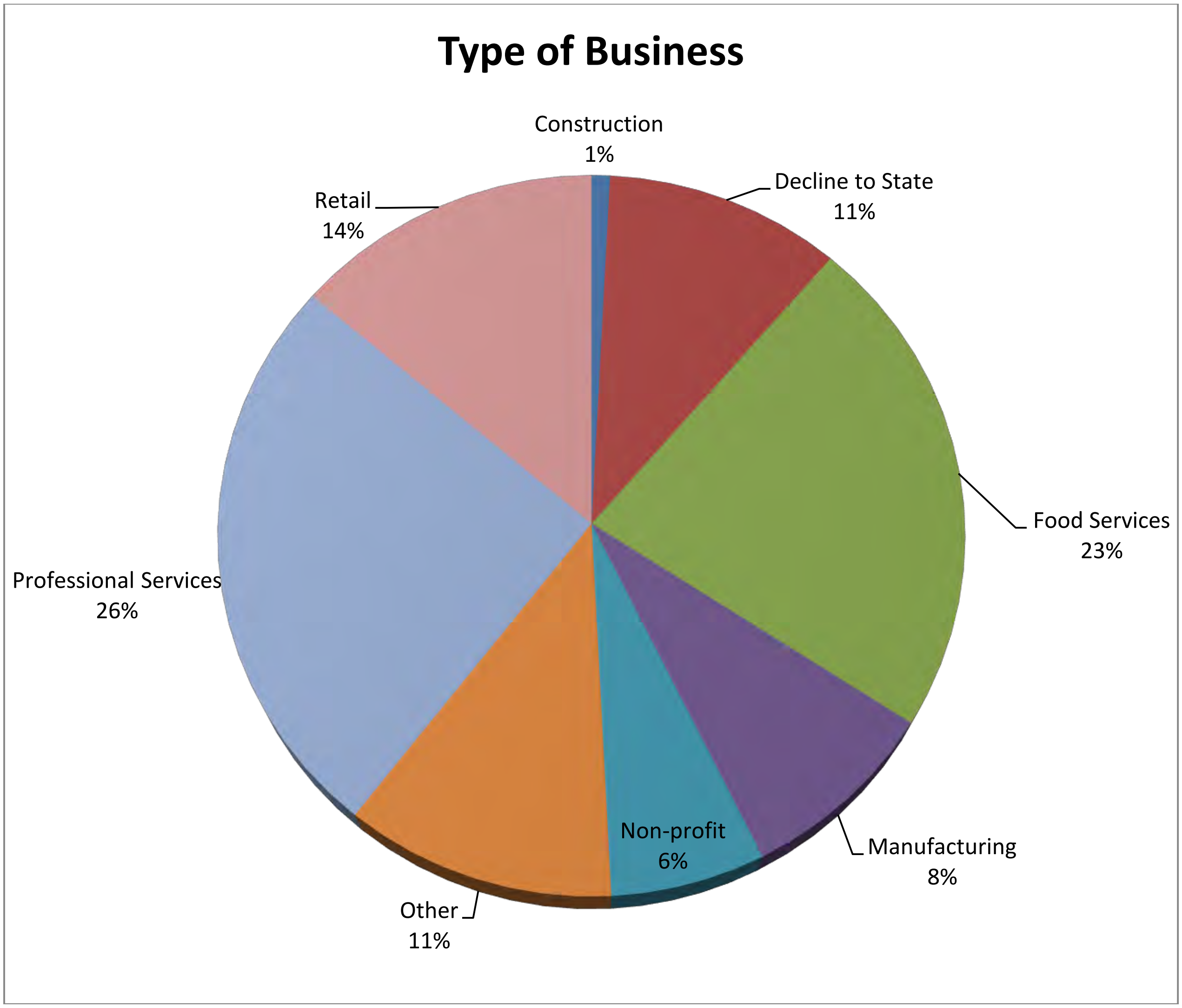


	Less than $100K	$100K-500K	$500K-2 mil	$2 mil-10 mil	$10 mil-14 mil	Over $14 mil	Decline to State
% of Business Owners	9.8%	19.5%	24.8%	14.6%	2.4%	2.0%	26.8%



	1-10	10-50	50-100	100+	Decline to state
% of Business Owners	32.6%	20.9%	9.3%	2.3%	34.9%




Type of Business
Construction
1%
Decline to State
11%
Food Services
23%
Manufacturing
8%
Non-profit
6%
Other
11%
Professional Services
26%
Retail
14%

Appendix C

Comments From Non-Businesses

Throughout the process of collecting comments from businesses, DCBA received 535 comments from members of the public who did not identify as a business. These speakers were predominantly associated with labor organizations and represented industries such as the food services, home care, and garment industries. All of the 535 non-business speakers supported an increase to the minimum wage.

A. Wage Theft

Many speakers expressed concerns about what they called "wage theft." Commenters stated they are not being paid all of the wages that they are owed. They stated they were not compensated for overtime, total hours worked, gratuities, or were not given their meal and rest breaks. These speakers worked predominantly in the home services, car wash, and food services industry.

Other speakers from labor organizations commented that they opposed credits or exemptions for tipped workers such as waiters in the food services industry. A representative of the Restaurant Opportunities Center of Los Angeles stated that those in tipped industries should not be subject to an exemption because this will further promote wage theft.

B. Living Wage

Many speakers stated that the minimum wage needs to be raised to provide the workforce with a living wage. Some noted that it is inequitable that an individual working full time cannot afford to live in Los Angeles on the current minimum wage. These speakers commented that wages need to be raised in order to keep up with inflation. Almost every individual who worked in the home care industry who made a public comment expressed the need to raise the minimum wage in order to provide a living wage. Economists from the Los Angeles Alliance for a New Economy pointed out that many minimum wage workers are currently living below the poverty line. They felt wages should be proportionately increased to account for an increased cost of living in Los Angeles County.

There were other low-wage workers, such as a fast food employee who earns $9 an hour. She said her current wage is not enough to keep her family afloat. "I'm a single mother, and it's really hard for me to support a 5-year-old with $9 an hour," she said. Workers in the car wash industry also expressed that the wages they earn are not a living wage. One nonprofit worker stated that 50% of the people they assist make less than $10 per hour and have more than one job because the current minimum wage is not a living wage.

He felt that a wage increase would provide for a living wage and directly reinvest $12.5 million back into the local economy.

Proponents of increasing the minimum wage to provide a living wage also stated that if the wage were increased, their children's basic medical needs could be provided for and that their care would not suffer.

C. Enforcement

Workers spoke about the need for increasing enforcement along with increasing the minimum wage. The call for "$15.00 with enforcement" was a common refrain at each hearing and through the online public comments. One worker in the food services industry commented that he was a victim of wage theft, received a judgment at the Labor Commissioner, and that the business quickly filed for bankruptcy to avoid paying the judgment. To date, he has not received any of the wages that he was owed. Stories similar to this one were repeated at multiple hearings, with workers calling for stronger enforcement authority for the Labor Commissioner. Other individuals commented that penalties should be imposed on businesses who do not comply with the potential wage increase and that there should be oversight and compliance checks.

ATTACHMENT C

DEPARTMENT OF PUBLIC SOCIAL SERVICES

ANALYSIS OF POTENTIAL IMPACT OF AN UNINCORPORATED AREA MINIMUM WAGE INCREASE

DPSS Analysis of Potential Impact of an Unincorporated Area Minimum Wage Increase
June 8, 2015

This is in response to the Board's March 31, 2015 motion to explore the impact of an increase in the minimum wage in the unincorporated areas of Los Angeles County. Specific to the Department of Public Social Services (DPSS), the Board asked that DPSS analyze "the potential impact that a higher wage will have on County residents who receive public benefits, including CalWORKs and CalFresh."

This analysis is complex and focuses on available administrative data and known program rules. We present several eligibility scenarios that show the relationship between wages, hours worked, and eligibility for CalWORKs (CW) and CalFresh (CF).

Key Findings

1. All families receiving CalWORKs and/or CalFresh benefits will see an increase in total income and a reduction in benefits as a result of an increased minimum wage. Some families will lose all CalWORKs benefits, depending on the size of the family, hours worked, and amount of the minimum wage.
2. Most families will see a reduction in their Earned Income Tax Credit (EITC), but families working 20 or less hours/week will see an increase or no change to their EITC.
3. Individuals receiving CalFresh will see an increase in total income, but a reduction in CalFresh benefits.
4. In March 2015, there were 90,112 families/individuals receiving CalWORKs/CalFresh benefits in the unincorporated area, of which 27,616 (30.6%) had earned income. Of these 27,616 families/individuals, an estimated 9,859 were working up to 20 hours week, 5,703 were working 21-30 hours/week, and 12,054 were working more than 30 hours/week.
5. In March 2015, these 27,616 families/individuals with earnings received $3.1 million in CalWORKs benefits and $9.1 million in CalFresh benefits. An increase in the minimum wage to $13.25/hour would result in an estimated reduction in CalWORKs benefits of $992,000 (32%) and $3.0 million in CalFresh benefits (33%). An increase in the minimum wage to $15.25/hour would result in an estimated reduction in CalWORKs benefits of $1.6 million (52%) and $4.9 million in CalFresh benefits (54%).

DPSS Programs

DPSS administers a variety of programs that involve income tests to determine eligibility. This analysis focuses on the CalWORKs cash assistance program and the CalFresh supplemental nutrition program.

There are various factors to consider when calculating program eligibility and benefits. For both the CW and CF programs, the following variables are important:

- Income, including hourly wage and hours worked;
- Household size; and
- Other non-earned income.

For CalFresh only, the following additional variables are considered:

- Rental costs;
- Utility costs/allowances; and
- If applicable, CalWORKs/General Relief cash grant.

We note these considerations to highlight the complexity in applying program rules, which becomes evident as we walk through the scenarios in our analysis.
Additionally, DPSS' Medi-Cal (MC) Program, a health coverage program for low-income individuals/families, is included in the Los Angeles County Economic Development Corporation's (LACEDC) analysis. DPSS provided our analysis to the Chief Executive Office (CEO), who in turn shared our analysis with LACEDC. Under this motion, LACEDC is required to assess the impact of a higher minimum wage on programs under the Affordable Care Act.

Important Assumptions to Consider

A comprehensive analysis of the impact of an increase in the minimum wage on DPSS' programs would require a more sophisticated economic model that estimates how the economy as a whole could change and, therefore, impact both DPSS program exits and new entrants. With limited time, data, and resources, this analysis is an admittedly flat model that provides a simplified snapshot of potential impacts based on known administrative data and program rules. Given that, it is important to explicitly state our assumptions in this analysis to ensure a well-informed review of available DPSS data, as well as a clear explanation of its limitations based on these assumptions.

Assumption 1: People living in Unincorporated Los Angeles County also work there.

This analysis focuses on the employed CalWORKs families and CalFresh families/individuals living in Unincorporated Los Angeles County (ULAC). One key assumption in this analysis is that these working individuals/families also work in ULAC. Data are unavailable to tell us where these ULAC individuals work, so in this analysis, residence serves as a proxy for place of employment. Given that a strong local employment base tends to lead to the incorporation of that area into a city, this proxy could lead to an overestimation of the impact of a ULAC minimum wage increase, since it is likely that there are more CalWORKs/CalFresh participants who live in ULAC than the number who work in ULAC.

Assumption 2: Those employed now will remain employed and at the same weekly hours.

Another key assumption is that those employed now will remain employed, and at the same weekly hours. In other words, we assume that employees' work hours will not change as a result of an increase in the minimum wage.

Potential Unincorporated Los Angeles County Caseload Impact

DPSS reviewed its March 2015 administrative data to identify the number of cases by targeted program with addresses in ULAC. Within that population, we identified those individuals/families with earnings, who would therefore presumably be impacted most directly by an increase in the minimum wage. Generally speaking, one-third of the ULAC cases report earnings. The chart below summarizes the identified caseloads.

ULAC Families/Households Receiving CalWORKs and/or CalFresh
March 2015

Program	Total ULAC Cases	Total ULAC Cases with Earnings	% of ULAC Cases w/ Earnings
CalWORKs w/ CalFresh (CW/CF)	17,601	5,898	34%
CalWORKs w/out CalFresh (CW Only)	1,995	672	34%
CalFresh w/out CalWORKs (CF w/o CW)	70,516	21,046	30%

We also looked at what percentage of the total March 2015 caseload is ULAC's share in relation to the total DPSS caseload and note the following:

- For CW/CF, the ULAC total is 12% of the overall 148,015 CW/CF cases in the County.
- For CW Only, the ULAC total is 12% of the overall 17,197 CW w/out CF cases in the County.
- For CF w/out CW, the ULAC total is somewhat higher at 16% of the overall 438,240 CF cases that do not have CW in the County.

Case Scenarios

Applying the aforementioned assumptions and holding other factors constant, we examined typical cases receiving CalWORKs and CalFresh (CW/CF), CalWORKs without CalFresh (CW Only), and CalFresh without CalWORKs (CF w/o CW), and tracked how increases in the minimum wage would affect benefits and eligibility for each type of case. We took these "typical" cases and applied incrementally increasing minimum wages to identify the reduction in benefits and the point in time that they lose program eligibility. We also tracked their overall income, which includes their cash grant, earnings, CalFresh benefits, and Earned Income Tax Credit. Our analysis begins at $10.00/hr., the State minimum wage that will be in effect January 2016.

Exhibit A provides details on several scenarios. The scenarios include the following changing variables:

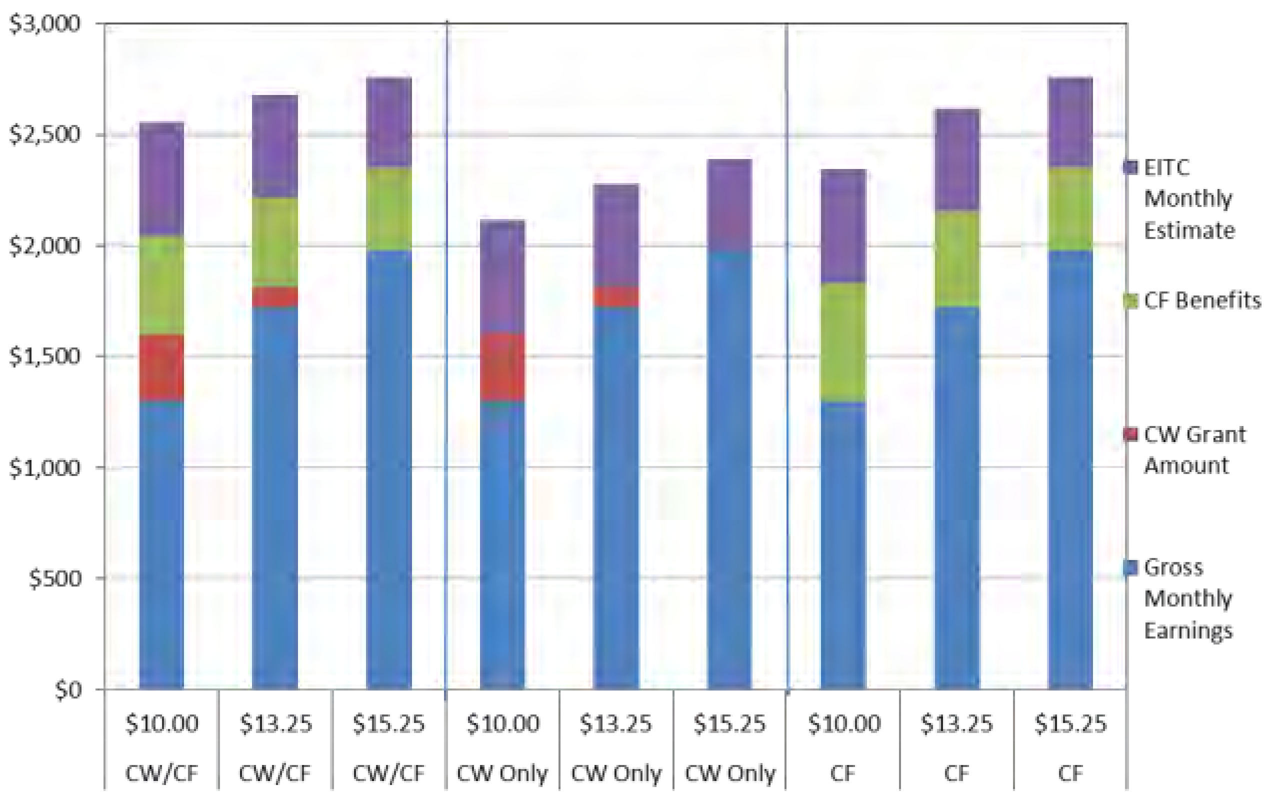
- The three categories of participants: CW/CF, CW Only and CF w/o CW;
- Family size: Households of 2, 3 and 4, each of which includes at least one child;
- Hours worked: 20, 30 or 40 per week; and
- Hourly wage - $10.00/hr., $13.25/hr., and $15.25/hr.

We used these factors to arrive at an estimated total family income comprised of:

- CalWORKs grant (where applicable);
- CalFresh benefits;
- Earned Income Tax Credit (EITC), converted to a per month average; and
- Total gross earnings.

The graph below provides examples of how the income of a family of four (working 30 hours per week) would change as the minimum wage increases in each of the three categories of programs that we reviewed. The reduction/elimination in CW (denoted in red) and the reduction in CF (denoted in green) is evident; however, also clear are the increases in both gross monthly earnings and the overall household income.

Example: Family of 4 and Changing Income



Below is an example that highlights estimated changes for households of 4, receiving CW/CF, and working 30 hours per week. As a baseline, we use the $10/hour minimum wage that will become State law effective January 1, 2016.

At a $10.00 hourly wage, this family's monthly income is as follows:

- CW grant - $303;
- CF benefits - $442;
- Gross earnings - $1,299;
- EITC - $512; and
- Total family income - $2,556.

We follow the same family, but increasing the hourly wage variable to $13.25 per hour. We see the following changes:

- CW grant - reduced to $92;
- CF benefits - reduced to $404;
- Gross earnings - increased to $1,721;
- EITC - decreased to $462; and
- Total family income – increased to $2,679.

Under a minimum wage of $13.25, CW, CF and EITC benefits are reduced, but the increase in gross earnings offsets the reductions.

Applying the hourly wage of $15.25, we see a similar trend: a decrease in benefits, but a continued increase in total income.

- CW eligibility ends due to excess income;
- CF benefits - reduced to $370;
- Gross earnings - increased to $1,981;
- EITC - decreased to $408; and
- Total family income – increased to $2,758.

The trend of decreased benefits but continued increases in total income in the above example repeats itself in Exhibit A. (Exhibit A depicts nine different scenarios of varying family size and hours worked.) As families start earning more due to an increase in hourly wage, families start losing their CalWORKs benefits.

- Families of two and three lose their CalWORKs benefits once the minimum wage increases to $13.25/hour at 30 hours worked per week.
- Families of 4 lose CalWORKs benefits at $15.25/hour at 30 hours worked per week.

However, as visually depicted in the prior page's bar chart, in all scenarios, the families' overall incomes increase as the wages increase, even with the loss of CW benefits and reduction of CF and EITC benefits.

ULAC Caseload Data Review

DPSS reviewed its administrative data to estimate how these proposed changes could impact current residents of ULAC that have earnings. Specifically, we grouped working ULAC residents into the following categories, assumed an estimated hourly wage of $10.00, and identified the following number of working families by estimated hours worked:

- Up to 20 weekly hours worked – 9,859
- 21 – 30 weekly hours worked – 5,703
- Over 30 weekly hours worked – 12,054

Exhibits B and C reflect the number of actual employed ULAC participants currently in our caseload. We provide a breakdown by this analysis' three categories of participants.

To estimate the potential impact of minimum wage increases, we applied the analysis in Exhibit A, our scenarios of typical cases, to these groupings. Exhibit B shows the effects of a minimum wage increase from $10.00 to $13.25, while Exhibit C shows the effects of an increase from $10.00 to $15.25. For each category, we used the high end of the range of hours worked, so we used 20 hours/week for families working 20 hours or less, 30 hours/week for families working 21-30 hours, and 40 hours/week for families working over 30 hours.

We take an example of families of 3 receiving CF without CW, and working over 20 to 30 hours per week.

- We identified 832 families in this category.
- As a baseline, we assumed a starting point of $10.00/hour, which is shown in Exhibit A.
- Exhibit B shows that based on these factors, and an increase from $10.00/hour to $13.25/hour, the families will see their CF benefits reduced by $101. However, the family's overall household income increases by $271 dollars.
- Exhibit C shows what will happen if the increase went from $10.00/hour to $15.25/hour. CF benefits are reduced by $163. But again, we see that due to the increase in gross earnings, the household's overall income increases by $415.

Exhibits B and C show that all employed ULAC families will see a drop in DPSS benefits, but also see an increase in overall income. It is important to note that for CW cases that are terminated, the families will remain eligible to child care benefits.

Aggregated Data

Exhibit A provides snapshots of how "typical" cases may fare under an increasing minimum wage. In this section, by contrast, we looked at potential overall CW and CF program savings. To estimate program savings, we looked at the March 2015 administrative data, which include information on total benefits issued and total earnings for those cases. We calculated additional aggregated earnings and applied program deductions to the estimated additional earnings to arrive at how much of this income will be countable against the case. These calculated additional earnings were used as estimated CalWORKs and CalFresh savings that would be generated by increases in the minimum wage.

Our starting point for this analysis is the actual CW and CF benefits issued. The chart below reflects how much was issued in CW and CF in March 2015 to all ULAC households with earnings.

Total Benefits Issued to ULAC Housheholds with Earnings (March 2015)		
Program	*CalWORKs Benefit Amount*	*CalFresh Benefit Amount*
CW Only	$293,112	
CW with CF	$2,808,934	$2,414,175
CF without CW		$6,704,333

Program Deductions

For CalWORKs, the grant is reduced by 50% of earnings, after the first $225/month for which there is no reduction in CalWORKs benefits. Since most working CalWORKs families with earnings have already exhausted the initial $225 deduction, any increase in earnings will result in 50 percent being countable against the grant.

For CalFresh, the deductions are more complicated. According to the United States Department of Agriculture (USDA), CalFresh benefits decline 30 cents for every one dollar increase in family earnings.

For CW cases with CF, the reduction in CF benefits will be half of 30 percent, or 15 percent, because the reduction in CW benefits will offset half of the increase in earned income.

Estimated Savings

Based on these program deductions, we estimated the following savings in CW and CF expenditures:

Estimated Monthly Benefit Savings					
Program	***Total Cases***	***Savings at $13.25/hr***	***% of Savings of March '15 Benefits***	***Savings at $15.25/hr***	***% of Savings of March '15 Benefits***
CW Only	*672*	*$170,432*	*58%*	*$275,313*	*94%*
CW with CF	*5,898*	*$821,795*	*29%*	*$1,327,515*	*47%*
		$246,539	*10%*	*$398,255*	*16%*
CF without CW	*21,046*	*$2,799,473*	*42%*	*$4,522,225*	*67%*

Please note that some of the CW savings and the CF savings on CW cases are over-stated because of the families who would exit CW before the full CW savings would be realized. For example, if a family is receiving a CW grant of $200, but their earnings increase by $500, their countable earnings are $250, but the CW grant savings will only be $200.

However, due to data limitations, the above table includes $250 in CW grant savings for that family, rather than the actual savings of $200.

Based on our analysis of March 2015 administrative data of ULAC cases with earnings, and an increase in the hourly minimum wage to $13.25, the program savings are estimated at over $4.0 million/month in CW and CF benefits. At an increase to $15.25, the CW and CF savings are estimated at over $6.5 million/month.

It is important to put the terms "savings" into a broader context, particularly with respect to CalFresh. The United States Department of Agriculture (USDA) estimates the economic impact of the Supplemental Nutrition Assistance Program (SNAP), CalFresh in California. USDA found SNAP benefits can have a multiplier effect on the economy - every $5 in SNAP benefits generates as much as $9 of economic activity. The reduction in CalFresh benefits doesn't necessarily erase that positive economic impact, if the increased earnings are used to purchase food that would have otherwise been purchased with CalFresh benefits. However, because cash can be used in many more ways than CalFresh benefits, including saving the cash, there is no guarantee of sustained economic activity. Conversely, an increase in overall household income could spur economic activity beyond what has been estimated by USDA.

Summary

Based on this analysis, wage increases will translate into reductions of government expenditures for public benefits. For families, the reduction/loss of benefits is offset by increased gross income that results from the higher wages.

DPSS CASE SCENARIOS ON INCREASING MINIMUM WAGE

Scenarios for a Typical Family of 2 (Adult + 1 Child)

20 Hours Worked

Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$866	$866	$866	$1,147	$1,147	$1,147	$1,321	$1,321	$1,321
B) CW Grant Amount	$249	$249	N/A	$108	$108	N/A	$21	$21	N/A
C) CF Benefits	$267	N/A	$342	$242	N/A	$275	$227	N/A	$233
D) EITC Monthly Estimate	$275	$275	$275	$275	$275	$275	$275	$275	$275
Total Income (A-D)	**$1,657**	**$1,390**	**$1,483**	**$1,773**	**$1,530**	**$1,698**	**$1,844**	**$1,617**	**$1,829**

30 Hours Worked

Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$1,299	$1,299	$1,299	$1,721	$1,721	$1,721	$1,981	$1,981	$1,981
B) CW Grant Amount	$32	$32	N/A	$0	$0	N/A	$0	$0	N/A
C) CF Benefits	$229	N/A	$238	$137	N/A	$137	$75	N/A	$75
D) EITC Monthly Estimate	$275	$275	$275	$238	$238	$238	$196	$196	$196
Total Income (A-D)	**$1,835**	**$1,606**	**$1,812**	**$2,096**	**$1,959**	**$2,096**	**$2,252**	**$2,177**	**$2,252**

40 Hours Worked

Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$1,732	$1,732	$1,732	$2,295	$2,295	$2,295	$2,641	$2,641	$2,641
B) CW Grant Amount	$0	$0	N/A	$0	$0	N/A	$0	$0	N/A
C) CF Benefits	$134	N/A	$134	$16	N/A	$16	$16	N/A	$16
D) EITC Monthly Estimate	$236	$236	$236	$146	$146	$146	$91	$91	$91
Total Income (A-D)	**$2,102**	**$1,968**	**$2,102**	**$2,457**	**$2,441**	**$2,457**	**$2,748**	**$2,732**	**$2,748**

DPSS CASE SCENARIOS ON INCREASING MINIMUM WAGE

Scenarios for a Typical Family of 3

20 Hours Worked									
Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$866	$866	$866	$1,147	$1,147	$1,147	$1,321	$1,321	$1,321
B) CW Grant Amount	$384	$384	N/A	$243	$243	N/A	$156	$156	N/A
C) CF Benefits	$381	N/A	$496	$356	N/A	$429	$340	N/A	$387
D) EITC Monthly Estimate	$346	$346	$346	$455	$455	$455	$455	$455	$455
Total Income (A-D)	**$1,977**	**$1,596**	**$1,708**	**$2,201**	**$1,845**	**$2,031**	**$2,272**	**$1,932**	**$2,163**

30 Hours Worked									
Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$1,299	$1,299	$1,299	$1,721	$1,721	$1,721	$1,981	$1,981	$1,981
B) CW Grant Amount	$167	$167	N/A	$0	$0	N/A	$0	$0	N/A
C) CF Benefits	$342	N/A	$392	$291	N/A	$291	$229	N/A	$229
D) EITC Monthly Estimate	$455	$455	$455	$405	$405	$405	$351	$351	$351
Total Income (A-D)	**$2,263**	**$1,921**	**$2,146**	**$2,417**	**$2,126**	**$2,417**	**$2,561**	**$2,332**	**$2,561**

40 Hours Worked									
Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$1,732	$1,732	$1,732	$2,295	$2,295	$2,295	$2,641	$2,641	$2,641
B) CW Grant Amount	$0	$0	N/A	$0	$0	N/A	$0	$0	N/A
C) CF Benefits	$288	N/A	$288	$153	N/A	$153	$70	N/A	$70
D) EITC Monthly Estimate	$403	$403	$403	$285	$285	$285	$212	$212	$212
Total Income (A-D)	**$2,423**	**$2,135**	**$2,423**	**$2,733**	**$2,580**	**$2,733**	**$2,923**	**$2,853**	**$2,923**

DPSS CASE SCENARIOS ON INCREASING MINIMUM WAGE

Scenarios for a Typical Family of 4

20 Hours Worked									
Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$866	$866	$866	$1,147	$1,147	$1,147	$1,321	$1,321	$1,321
B) CW Grant Amount	$520	$520	N/A	$379	$379	N/A	$292	$292	N/A
C) CF Benefits	$481	N/A	$637	$456	N/A	$570	$440	N/A	$528
D) EITC Monthly Estimate	$389	$389	$389	$512	$512	$512	$512	$512	$512
Total Income (A-D)	**$2,256**	**$1,775**	**$1,892**	**$2,494**	**$2,038**	**$2,229**	**$2,565**	**$2,125**	**$2,361**

30 Hours Worked									
Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$1,299	$1,299	$1,299	$1,721	$1,721	$1,721	$1,981	$1,981	$1,981
B) CW Grant Amount	$303	$303	N/A	$92	$92	N/A	$0	$0	N/A
C) CF Benefits	$442	N/A	$533	$404	N/A	$432	$370	N/A	$370
D) EITC Monthly Estimate	$512	$512	$512	$462	$462	$462	$408	$408	$408
Total Income (A-D)	**$2,556**	**$2,114**	**$2,344**	**$2,679**	**$2,275**	**$2,615**	**$2,759**	**$2,389**	**$2,759**

40 Hours Worked									
Min Wage	$10.00			$13.25			$15.25		
	CW/CF	CW Only	CF	CW/CF	CW Only	CF	CW/CF	CW Only	CF
A) Gross Monthly Earnings	$1,732	$1,732	$1,732	$2,295	$2,295	$2,295	$2,641	$2,641	$2,641
B) CW Grant Amount	$87	$87	N/A	$0	$0	N/A	$0	$0	N/A
C) CF Benefits	$403	N/A	$429	$294	N/A	$294	$211	N/A	$211
D) EITC Monthly Estimate	$460	$460	$460	$342	$342	$342	$269	$269	$269
Total Income (A-D)	**$2,682**	**$2,279**	**$2,621**	**$2,931**	**$2,637**	**$2,931**	**$3,121**	**$2,910**	**$3,121**

ESTIMATED MINIMUM WAGE IMPACT ON EMPLOYED CalWORKs AND CALFRESH FAMILIES/HOUSEHOLDS IN THE UNINCORPORATED AREA OF LOS ANGELES COUNTY

HOURLY WAGE $13.25										
		Family of 2			Family of 3			Family of 4		
PROGRAM		20 Hours	30 Hours	40 Hours	20 Hours	30 Hours	40 Hours	20 Hours	30 Hours	40 Hours
CalFresh Without CalWORKS	Number of Families/Households	1387	1015	1652	980	832	1580	563	509	1160
	Average reduction in CalFresh	-$67	-$101	-$118	-$67	-$101	-$135	-$67	-$101	-$135
	Average increase in total income (including CF)	$215	$284	$355	$323	$271	$310	$337	$271	$310
CalWORKS With CalFresh	Number of Families/Households	743	267	138	864	341	226	789	283	260
	Average reduction in CalWORKs	-$141	-$32	$0	-$141	-$167	$0	-$141	-$211	-$87
	Average reduction in CalFresh	-$25	-$92	-$118	-$25	-$51	-$135	-$25	-$38	-$109
	Average increase in total income (including CF)	$116	$261	$355	$224	$154	$310	$238	$123	$249
CalWORKs without CalFresh	Number of Families/Households	97	39	46	76	27	47	41	11	26
	Average reduction in CalWORKs	-$141	-$32	$0	-$141	-$167	$0	-$141	-$211	-$87
	Average increase in total monthly income	$140	$353	$473	$249	$205	$445	$263	$161	$358

Note: To estimate the potential impact of minimum wage increases, we applied the analysis in Exhibit A, our scenarios of typical cases, to these groupings. The above shows the effects of a minimum wage increase from $10.00 to $13.25. For each category, we used the high end of the range of hours worked: we used 20 hours/week for families working 20 hours or less; 30 hours/week for families working 21-30 hours: and 40 hours/week for families working over 30 hours.

EXHIBIT C

ESTIMATED MINIMUM WAGE IMPACT ON EMPLOYED CalWORKs AND CALFRESH FAMILIES/HOUSEHOLDS IN THE UNINCORPORATED AREA OF LOS ANGELES COUNTY

HOURLY WAGE $15.25										
		Family of 2			Family of 3			Family of 4		
PROGRAM		20 Hours	30 Hours	40 Hours	20 Hours	30 Hours	40 Hours	20 Hours	30 Hours	40 Hours
CalFresh Without CalWORKS	Number of Families/Households	1387	1015	1652	980	832	1580	563	509	1160
	Average reduction in CalFresh	-$109	-$163	-$118	-$109	-$163	-$218	-$109	-$163	-$218
	Average increase in total income (including CF)	$346	$440	$646	$455	$415	$500	$469	$415	$500
CalWORKS With CalFresh	Number of Families/Households	743	267	138	864	341	226	789	283	260
	Average reduction in CalWORKs	-$228	-$32	$0	-$228	-$167	$0	-$228	-$303	-$87
	Average reduction in CalFresh	-$40	-$154	-$118	-$41	-$113	-$218	-$41	-$72	-$192
	Average increase in total income (including CF)	$187	$417	$646	$295	$298	$500	$309	$203	$439
CalWORKs without CalFresh	Number of Families/Households	87	46	49	71	27	52	38	13	27
	Average reduction in CalWORKs	-$228	-$32	$0	-$228	-$167	$0	-$228	-$303	-$87
	Average increase in total monthly income	$227	$571	$764	$336	$411	$718	$350	$275	$631

Note: To estimate the potential impact of minimum wage increases, we applied the analysis in Exhibit A, our scenarios of typical cases, to these groupings. The above shows the effects of a minimum wage increase from $10.00 to $15.25. For each category, we used the high end of the range of hours worked: we used 20 hours/week for families working 20 hours or less; 30 hours/week for families working 21-30 hours: and 40 hours/week for families working over 30 hours.